

2/15/77 [2]

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THE WHITE HOUSE
WASHINGTON

Frank

Ham

VP

Aragon

Tody

Brz

Lipshutz

Watson

Lance

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Stu Eizenstat

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Zbigniew Brzezinski
Richard Moe
Hamilton Jordan

Re: Eizenstat memo on Military
Base Closings.

THE WHITE HOUSE
WASHINGTON

to

EB

Sty

Mat

Hu

THE WHITE HOUSE
WASHINGTON

Mr. President:

Aragon, Moore, Watson, Moe,
Lipshutz and Jordan agree with
Stu's memo.

Brzezinski demurs, and his
comments are attached.

Rick

MEMORANDUM

THE PRESIDENT HAS SEEN.

NATIONAL SECURITY COUNCIL

~~CONFIDENTIAL GDS~~

February 14, 1977

MEMORANDUM FOR:

RICK HUTCHESON

FROM:

ZBIGNIEW BRZEZINSKI

SUBJECT:

Stu Eizenstat's Memo on Military Base Closings

I have reviewed the attached memo to the President, and would offer the following thoughts on its recommendations.

-- I would caution against deferring any of the base closings already underway. We are quite likely going to be recommending further closures ourselves, and we would hinder our own efforts by reversing a decision taken over a year ago and based upon sound judgments concerning our overall basing needs. We can expect local pressures in any case. To reverse any of the planned closings will multiply that pressure many times over.

-- The White House should review each and every policy decision with major domestic political implications. In the case of closures, that review seems best handled through the same NSC system which brings all other defense policy questions to the President. To highlight closures through any kind of White House "super committee" will serve to bring the President much too close to such issues. Our goal should be to have DOD take the lead on base closures, with the President reviewing (privately, through NSC) and backing those decisions. Lobbying delegations should receive as little White House attention as possible.

Electrostatic Copy Made
for Preservation Purposes

~~CONFIDENTIAL GDS~~

Jay 6/19/89

THE WHITE HOUSE
WASHINGTON

February 10, 1977

*Stu - Do you
want to put me in
charge of base
closings? I couldn't
do anything else.
Stay out of it -*

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*

SUBJECT: Corpus Christi Naval Base Closings -
Base Closings in General

I saw a delegation from Corpus Christi, Texas, led by Dr. Hector Garcia, regarding the Navy's announced desire to close or greatly reduce the Corpus Christi Naval Air Station. Dr. Garcia is a recognized national leader in the Mexican-American community and was one of the persons responsible for the 95 percent vote we received by the Mexican-American community in Corpus Christi. The group included the publisher of the Corpus Christi newspaper, the head of a large supermarket chain and the Chairman of their Chamber of Commerce.

He made the following arguments:

- 1) Since the Army operates a helicopter overhaul facility at the Naval air station and pays 22 percent of the overhead, a pullout by the Navy will lead to similar action by the Army.
- 2) The Navy's plans would have great impact on what is already the third poorest city in the United States and particularly on the already high unemployment rate among Mexican-Americans. The Navy employs approximately 1000 civilians, one-half of whom are Mexican-Americans. The Army employs 3500 civilians and employs more Mexican-Americans at this base than it does at any other facility. They estimate that the community would lose 14,000 jobs and \$140 million in annual payroll.
- 3) The closing is to be followed by the movement of the Naval squadrons to Pensacola, which they claim has less air space than the facility in Corpus Christi and has less advantageous flying weather.

Made
on Purposes

4) The environmental impact study by the Navy has never been made public.

5) Dr. Garcia was very firm in stating that the closing would be a political embarrassment to him and the Mexican-American community, and it would have a very adverse political impact on the Mexican-Americans who gave such a strong vote of support.

They stated that unless action was taken within the next few weeks, they feared the decision would be irreversible.

The delegation mentioned that their group had held a meeting, shortly before the one with me, with Senator Bentsen and Deputy Secretary of Defense Duncan.

I have the following recommendations:

-- in view of the urgency of the Corpus Christi situation, that you direct the Secretary of Defense to stop any further steps toward closing the Naval base until a complete study can be done and reviewed by him.

-- that you convene a White House Staff Group composed of Hamilton Jordan, Zbig Brzezinski, Jack Watson, Frank Moore, Bob Lipshutz, Dick Moe and myself to make recommendations to you on the whole subject of procedures for base closings, so that we will have better coordination with the Department of Defense on its tentative base-closing decisions. The existing decision undoubtedly reflects judgments of the previous administration.

THE WHITE HOUSE
WASHINGTON

2/15 (SW)

Date: February 11, 1977

MEMORANDUM

FOR ACTION:

The Vice President
Frank Moore Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

Hold for
IT
comments

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE

WASHINGTON

February 10, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT *Stu*

SUBJECT:

Corpus Christi Naval Base Closings -
Base Closings in General

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2) The Navy's plans would have great impact on what is already the third poorest city in the United States and particularly on the already high unemployment rate among Mexican-Americans. The Navy employs approximately 1000 civilians, one-half of whom are Mexican-Americans. The Army employs 3500 civilians and employs more Mexican-Americans at this base than it does at any other facility. They estimate that the community would lose 14,000 jobs and \$140 million in annual payroll.

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Date: February 11, 1977

FOR ACTION:

The Vice President
Frank Moore Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments
Other:

STAFF RESPONSE:

☐ I concur. ☐ No comment.
Please note other comments below:

Without pre-judging this specific situation, I concur in the recommendation set out in the final paragraph. If formed, this group of course would need adequate background data from the D.C.D.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

CL

2/12/77

Date: February 11, 1977

FOR ACTION:

The Vice President
Frank Moore Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☒ I concur.

☐ No comment.

Please note other comments below:

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Date: February 11, 1977

FOR ACTION:

The Vice President
Frank Moore Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

Jane
2/11

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments
Other:

STAFF RESPONSE:

☒ I concur. *tw* ☐ No comment.
Please note other comments below:

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February 11, 1977

FOR ACTION:

The Vice President
Frank Moore ^{JM} Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

**YOUR RESPONSE MUST BE DELIVERED
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TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments
Other:

STAFF RESPONSE:

☒ I concur.
Please note other comments below:

☐ No comment.

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Date: February 11, 1977

FOR ACTION:

The Vice President

Frank Moore Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

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TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☒ I concur.

☐ No comment.

Please note other comments below:

*I also met with the Corpus
Christi group & fully agree with
Stu's conclusion & recommendation -
Liebman*

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

#29
46

NSC CORRESPONDENCE PROFILE

DDC		REF ID		LAW NUMBER	
MD	DA	MC	TA	ST	
2112		1120		7700590	

INITIAL ACTION D

TO PRES Brzezinski
AARON

FROM SECSTATE
SECDEF
DCI
STATE EXSEC
OTHER Hatcherson, R

S/S

UNCLAS LOG IN/OUT

LOU NO FORM

C EYES ONLY

S CODEWORD

TS SENSITIVE

SUBJECT NSC Comments on Legastat memo re closing of Corpus Christi Naval base & base closures in general

INTERNAL ROUTING AND DISTRIBUTION

	ACTION	CONCURRENCE	COORDINATE	INFO
ADV CYS B/21/11/AARON				
STAFF SECRETARY	<u>X</u>			
<u>Schechter</u>		<u>X</u> (to Davis)		
ECONOMIC				
EUR/CANADA				
FAR EAST				
INTELLIGENCE				
PEOPLE'S REP OF CHINA				
MID EAST/NO AFRICA				
NORTH/SOUTH ISSUES				
POLICY ANALYSIS				
GLOBAL ISSUES				
<u>edom</u>		<u>X</u> (to Davis)		
<u>Pragmatic Work</u>				<u>X</u>

REC CY FOR

ACTION REQUIRED

MEMO FOR THE PRESIDENT
MEMO FOR MR BRZEZINSKI
REPLY FOR
APPROPRIATE ACTION
MEMO TO
RECOMMENDATIONS
JOINT MEMO
REFER TO FOR
ANY ACTION NECESSARY?
CONCURRENCE to Hatcherson
DUE DATE: 2/14
COMMENTS (INCLUDING SPECIAL INSTRUCTIONS)

DATE FROM TO STATUS SUBSEQUENT ACTION REQUIRED (OR TAKEN) DUE CY

DISPATCH NOTIFY

SPECIAL DISPOSITION

SPECIAL INDEXING

military bases

M/T D BY

IF

CHT ID KES RS DY

OPEN WH SA PT

Date: February 11, 1977

FOR ACTION:

The Vice President
Frank Moore Jack Watson
Joe Aragon Bert Lance
Jody Powell
Zbigniew Brzezinski
Bob Lipshutz

FOR INFORMATION:

590
AK

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Stu Eizenstat memo 2/10/77 re
Corpus Christi Naval Base Closings-
Base Closings in General.

YOUR RESPONSE MUST BE DELIVERED
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TIME: 4:00 P.M.

DAY: Monday

DATE: February 14, 1977

ACTION REQUESTED:

☒ Your comments
Other:

STAFF RESPONSE:

☐ I concur.
Please note other comments below:

☐ No comment.

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THE WHITE HOUSE
WASHINGTON

February 10, 1977

*LANDOW
ASAP-
thanks*

MEMORANDUM FOR: THE PRESIDENT
FROM: STU EIZENSTAT *Stu*
SUBJECT: Corpus Christi Naval Base Closings -
Base Closings in General

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THE WHITE HOUSE
WASHINGTON

Rice -

Dick Note is supposed
to be working on
this. To avoid redundant
material - check with him -

Ed

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5) Dr. Garcia was very firm in stating that the closing would be a political embarrassment to him and the Mexican-American community, and it would have a very adverse political impact on the Mexican-Americans who gave such a strong vote of support.

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THE WHITE HOUSE

WASHINGTON

Date: February 15, 1977

MEMORANDUM

FOR ACTION:

The Vice President
Stu Eizenstat Jody Powell
Jack Watson
Hamilton Jordan
Frank Moore
Bob Lipshutz *FLH*

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT:

Cecil D. Andrus memo 2/14/77 re
attached OMB and CEQ lists of water
projects.

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: TODAY

DATE:

ACTION REQUESTED:

☒ Your comments
Other:

STAFF RESPONSE:

☐ I concur.
Please note other comments below:

☒ No comment.

THIS MUST GO TO THE PRESIDENT TONIGHT.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the material,

THE WHITE HOUSE

WASHINGTON

Date: February 15, 1977

MEMORANDUM

FOR ACTION:

The Vice President
Stu Eizenstat Jody Powell
Jack Watson
Hamilton Jordan
Frank Moore
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT:

Cecil D. Andrus memo 2/14/77 re
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DAY: TODAY

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

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PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you need more copies, please call the Staff Secretary.

THE WHITE HOUSE

WASHINGTON

Jane
BJ

Re: February 15, 1977

MEMORANDUM

FOR ACTION:

The Vice President
Stu Eizenstat Jody Powell
Jack Watson
Hamilton Jordan
Frank Moore
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT:

Cecil D. Andrus memo 2/14/77 re
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YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: TODAY

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☒ I concur. *JW*

☐ No comment.

Please note other comments below:

THIS MUST GO TO THE PRESIDENT TONIGHT.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE

WASHINGTON

SS

Date: February 15, 1977

MEMORANDUM

FOR ACTION:

The Vice President
~~Stu Eizenstat~~ Jody Powell
 Jack Watson
 Hamilton Jordan
 Frank Moore
 Bob Lipshutz

FOR INFORMATION:

xc: *Carp*
Fletcher

FROM: Rick Hutcheson, Staff Secretary

SUBJECT:

Cecil D. Andrus memo 2/14/77 re
 attached OMB and CEQ lists of water
 projects.

YOUR RESPONSE MUST BE DELIVERED
 TO THE STAFF SECRETARY BY:

TIME: 4:00 P.M.

DAY: TODAY

DATE:

ACTION REQUESTED:

☒ Your comments
 Other:

STAFF RESPONSE:

☐ I concur. ☐ No comment.
 Please note other comments below:

THIS MUST GO TO THE PRESIDENT TONIGHT.

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you need assistance, please call the Staff Secretary's Office at 202-456-2400.

THE WHITE HOUSE
WASHINGTON

7

Date: February 15, 1977

MEMORANDUM

FOR ACTION:

The Vice President
Stu Eizenstat Jody Powell
Jack Watson
Hamilton Jordan
Frank Moore
Bob Lipshutz

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT:

Cecil D. Andrus memo 2/14/77 re
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TIME: 4:00 P.M.

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ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

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☐ No comment.

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THE SECRETARY OF THE INTERIOR
WASHINGTON

February 14, 1977

MEMORANDUM TO THE PRESIDENT

From: Secretary of the Interior

Cecil D. Andrus

I have reviewed the attached OMB and CEQ lists of water projects which are of doubtful value on economic, environmental and safety grounds, as you requested.

I agree that these are projects which should be reviewed in much greater detail. They are nearly all in the early stages of construction, hence review would be timely.

Many of these projects are of dubious merit and should be stopped or curtailed at this point--if political problems can be overcome. Review of existing projects is an important short-term priority and we are prepared to conduct such a review as described in the OMB memo of January 24. In the event you wish to defer funding for some projects, the OMB and CEQ lists, and the comments which follow, provide a good basis for making your decision on the FY 1978 budget. Ultimate decisions to terminate or modify projects should follow the review process.

The strategy of water reform is a complicated one, given the powerful political forces behind the traditional authorizing system. An Administration strategy should not be confined to individual projects or groups of projects, but to develop a more rational water development system involving improved planning, current discount rates, and more equitable cost-sharing responsibilities.

Recognizing you must make decisions on specific project areas here are my comments:

Corps of Engineers Reports

Without authority to undertake general reviews of those projects authorized for construction by the Corps of Engineers, I do not feel qualified to judge them on their merits. At a later date, however, I could supply information about the effects of each of the CE projects on fish and wildlife habitat. I am therefore confining my comments to projects authorized for construction by the Bureau of Reclamation, whose activities are restricted to the seventeen western states.

Congressional Action

Each of these projects has been authorized by Congress and any efforts to review, delay, or terminate any aspect of the project will require Congressional concurrence. With respect to deferring project appropriations pending reviews, it should be made known that any Public Works Appropriations Bill containing funds for which deferrals have been requested will be vetoed.

An effort to formally cancel any of the listed projects will require deauthorization by the Congress. While there is precedent for deauthorization, it involves a protracted conflict with congressional sponsors, who feel that any deauthorization is a threat to the traditional patterns for western water development.

Garrison Diversion Unit (North Dakota)

Because of the concern of the Canadian Government about water quality effects of this project, we recommend deferral of the contract for Lonetree Dam at least until the on-going study of the Souris Section is completed by the International Joint Commission in June 1977. While awaiting the results of the IJC report, I am also prepared to initiate a thorough review of all aspects of the Garrison Diversion Unit. While there is strong political backing from Governor Link and the North Dakota delegation, this project is a prime candidate for deauthorization or modification.

Oahe Unit, South Dakota

This project is only about 7 percent complete, but serious local questions have arisen, and the Water Conservancy district (local sponsor) has asked that construction contracts for the pumping plant and reservoir be delayed until the District undertakes a review of the whole project. The Bureau had anticipated that these contract funds could be reprogrammed for acquisition and other purposes during the review process. However, the funds could be withheld from the FY 78 budget pending a complete review by the Administration. The economic and environmental considerations, as well as local concerns about loss of existing farmland place this project among those needing urgent review.

The Colorado River Basin Projects

There is significant inter-relationship between the Central Arizona Project and a number of questionable projects in the State of Colorado. Authorization of Savery Pot-Hook, Dolores, Fruitland Mesa and several other uneconomic Colorado projects was the political trade-off extracted by then House Interior Committee Chairman Wayne Aspinall for authorizing the CAP. Because of its scope, expense, and environmental degradation we have identified the CAP

as one of the least meritorious of the Bureau of Reclamation projects (albeit with strong local political support). Thus, if funding is deleted for the CAP, there is no reason whatsoever to pursue the Upper Basin projects in Colorado. But, if the CAP is continued, pressure will persist to fulfill the Upper Basin part of the "bargain."

Water shortages and salinity are mounting problems in the Colorado River Basin. These Upper Colorado projects, plus the Central Utah Project, threaten to aggravate the situation. CUP has also been identified as a non-meritorious project. It is, in fact, one of the most costly and damaging of the Bureau projects.

Central Valley Projects

The Auburn Project should be re-examined. In addition to its extremely high cost and environmental problems, the site has a serious earthquake hazard. The dam would be directly upstream of Sacramento and a valley with total population of nearly 250,000 people.

San Felipe, another Central Valley Project unit, presents serious water quality problems in the Delta. However, it would be more difficult politically to attack San Felipe than Auburn, because it would serve notice to development interests in the West and Central Valley projects are not sacred and they will be critically reviewed by the Administration.

Other Projects

The remaining Bureau of Reclamation projects: North Loup and O'Neil in Nebraska; Palmetto Bend, Texas; and, Brantley, New Mexico, are a catch-all group which are less contentious than others on the CEQ-OMB lists.

While each of these projects has some problem area associated with it, they do not appear to be of the magnitude identifiable with the other projects on the listings. None have safety problems. The environmental degradation is less than other projects under consideration. The economics of these projects, while for the most part are marginal, are not as poor as some of the others.

The possible dollar savings associated with these projects may not, therefore, be worth the political pain involved.

In sum, I believe the following Bureau of Reclamation projects represent those that should be given the highest priority for review and reconsideration:

1. Garrison Diversion Unit
2. Central Arizona Project
3. Auburn-Folsom South
4. Central Utah Project

Mr. President, let me stress again what I mentioned in the Cabinet meeting this morning: If we attempt to alter any of these projects for whatever reason, our action will act as a catalyst to create political coalitions in the Congress. (I discussed this with the Vice President and he concurs with this comment.) I am not arguing against eliminating some of these projects--some definitely merit action--but, I want you to know that there will be political retaliation from the Congress when we do.

CECIL D. ANDRUS
SECRETARY

* Issue Paper
Corps of Engineers and Bureau of Reclamation
1978 Budget
Economically and Environmentally Controversial Projects
CE-Corps of Engineers Project
BR-Bureau of Reclamation Project(Interior)

Statement of the Issue

Should the Administration delete Ford Budget requests for funds for environmentally and/or economically controversial projects which are in the early stages of construction until the Carter Administration has adequate opportunity to review water construction programs?

Pros:

- Demonstrates Administration concern for the environment.
- Signals Administration intention to build only projects which are sound economic investments with acceptable environmental consequences.

Cons.

- Will eliminate construction jobs at the same time we are trying to increase them.
- Antagonizes many influential interest groups that support the projects.
- Congress will fund most, if not all, anyway.
- Unilateral Presidential termination by impounding funds has been declared invalid by the courts in the Cross-Florida Barge Canal case; however, no court can order a President to request funds for a project.

Background

All of the 320 projects currently under construction were planned, designed, and authorized under water resources development criteria no longer applicable. Under current criteria many of them could not be justified. Opposition to many Federal water resources development projects has been expressed by environmental groups, such as the Audubon Society and the Sierra Club. Projects such as Tocks Island, Red River Lake, Big Pine, and Nebraska Mid-State have been suspended because of environmentalist campaigns.

Once a water resources project is funded for construction, regardless of its merits, it becomes difficult to terminate. The agencies' position is that the projects are underway and unless a State or a court orders a project terminated they will continue to request funds.

We have reviewed the 320 projects and have identified 30 that generate concern using one or more of the following criteria:

- A Council on Environmental Quality determination that the project has major adverse environmental impacts.
- A ratio of direct remaining benefits to remaining costs below 1:1 at current interest rates.
- A low proportion of sunk costs.
- Significant opposition exists.

Decision Requirements

If a budget amendment is submitted deleting funding for any of these projects from the Ford Budget, funds can be requested later if further review indicates that a project should be continued. Our budget guidance letters asked agency heads to conduct a project-by-project review and report later this Spring -- neither Secretary Andrus nor Secretary Designate Alexander has been contacted about the possibility of interim withdrawal of funds. Though the charge of defacto impoundment of 1977 funds could be raised in regard to some of these projects, should no 1978 funding be requested, we believe it can be adequately dealt with.

I. Projects opposed on environmental and economic grounds:

A. Projects where local and Congressional interests are divided: (\$ in millions)

<u>Name</u>	<u>Remaining Costs or Obligations</u>	<u>Costs or Obligations Through 1977</u>	<u>1978 Ford Budget</u>	<u>Congressional Districts Affected</u>	<u>Major Construction Contracts Let</u>	<u>B/C Ratio @ 6 3/8</u>
CE Dry Creek, Ca.	161	44	0.6	Clausen (R-2)	No	.86
CE Lukfata Lake, Ok.	30	2	0.2	Watkins (D-3)	No	1.0
ER Narrows Unit, Co.	139	7	9.7	Johnson (R-4)	No	.8
BR O'Neill, Nb.	173	3	8.1	Smith (R-3)	No	.9
Subtotal, A	503	56	18.6			

Comment: Opposition to these projects is widespread. Terminating these projects could save an ultimate \$500 M for investment in higher priority projects.

President's Decision: ☐ Deletion from the budget ☒ Leave in ☐ Other

1/ B/C ratio calculated on the remaining cost, remaining benefit method.

B. Projects with strong local and Congressional support: (\$ in millions)

Name	Remaining Costs or Obligations	Costs or Obligations Through 1977	1978 Ford Budget	Congressional Districts Affected	Major Construction Contracts Let	B/C Ratio @ 6 3/8%
CE Tenn-Tombigbee, Al, Ms.	1,136	274	157.0	1/	Yes	.8
CE Red River, La., Tx.	844	61	26.0	Waggonner (D-4)		
CE Yatesville, Ky.	46	11	7.2	Huckaby (D-5)	Yes	.9
CE Applegate Lake, Or.	68	7	7.4	Perkins (D-7)	Yes	.68
BR Fruitland Mesa, Co.	81	5	7.7	Weaver (D-4)	No	.49
BR Savery Pot Hook, Co.	67	4	6.0	Evans (D-3)	No	.6
Subtotal, B	2,242	362	211.3	Johnson (R-4)	No	.71

Comment: Although these projects are as environmentally and economically deficient as those preceding, they have broad support at the local level and in the Congress.

President's decision: ☒ Deletion from the budget ☐ Leave in ☐ Other

II. Projects opposed on environmental grounds:

A. Projects where local and Congressional interests are divided: (\$ in millions)

Name	Remaining Costs or Obligations	Costs or Obligations Through 1977	1978 Ford Budget	Congressional Districts Affected	Major Construction Contracts Let	B/C Ratio 6 3/8%
CE R. B. Russell, Ga.	227	21	21.0	Jenkins (D-9)	Yes	1.3
CE Paintsville, Ky.	31	11	7.3	Perkins (D-7)	Yes	1.12
*CE Dickey-Lincoln, Me.	525	8	1.0	Cohen (R-2)	No	2.0
CE Meramec Lake, Mo.	89	35	10.0	Ichord (D-8)	No	1.3
*CE Trinity River, Tx.	2,000	9	0.9	East Texas Del, Jim Wright (D-12)	No	1.7

*Projects in planning only.

1/ Montgomery (D, MS, 3); Bowen (D, MS, 2); Whitten (D, MS, 1); Beville (D, AL, 4); Flowers (D, AL, 7)

Name	Remaining Costs or Obligations	Costs or Obligations Through 1977	1978 Ford Budget	Congressional Districts Affected	Major Construction Contracts Let	B/C Ratio @ 6 3/8%
BR Garrison, ND	433	129	18.7	Andrews (R-AL)	Yes	1.37
BR Oahe, SD.	414	43	17.0	Pressler (R-1), Abdnor (R-2)	Yes	1.7
BR North Loup, Nb.	121	2	7.0	Smith (R-3)	No	1.0
BR San Felipe, Ca.	176	13	20.6	Panetta (D-16)	No	1.41
Subtotal, A	4,016	271	103.5	Mineta (D-13) Sisk (D-15)		

President's Decision: ☒ Deletion from the budget ☒ Leave in ☒ Other

B. Projects with strong local and Congressional support: (\$ in millions)

CE Cache River, Ar.	86	7	2.0	Alexander (D-1)	No	2.2
CE Central and Southern, Fla.	330	229	8.0	1/	Yes	2.1
CE Hillsdale, Ka.	39	17	14.0	Skubitz (R,5)	No	1.1
BR Central Arizona, Az.	1,283	392	104.2	2/	Yes	1.4
3/BR Auburn-Folsom South, Ca.	900	231	39.7	4/	Yes	1.3
Subtotal, B	2,638	876	167.9			

Comment: The Council on Environmental Quality has determined that all the projects listed in Group II have major adverse environmental impacts. The environmental movement has become very active and influential in controlling the planning and funding of water projects. While these projects are economically justified within the rules of the game, the benefits are typically of low priority.

President's Decision: ☒ Deletion from the budget ☒ Leave in ☒ Other

- 1/Ireland (D,8); Frey (R,9); Bafalis (R,10), Rogers (D,11); Burke (R,12); Lehman (D,13); Pepper (D,14); Fascell (D,15)
- 2/Rhodes (R,1); Udall (D,2); Stump (D,3); Rudd (R,4)
- 3/Serious questions about earthquake resistance have been raised about this dam located above Sacramento.
- 4/Johnson (D,1); McFall (D,14); Moss (D,3)

III. Projects opposed on economic or policy grounds: (\$ in millions)

Name	Remaining Costs or Obligations	Costs or Obligations Through 1977	1978 Ford Budget	Congressional Districts Affected	Major Construction Contracts Let	B/C Ratio @ 6 3/8%
CE Grove Lake, Ka.	84	2	1.0	Keys (D-2)	No	.59
CE Freeport, Il.	9	1	0.1	Anderson (R-16)	No	.59
CE Dayton, Ky.	7	0.4	2.9	Snyder (R-4)	No	.75
CE Ark-Red Chloride Area VIII, Tx., Ok.	21	7	2.7	Hightower (D-13) Burleson (D-17)	Yes	3.0
BR Dolores, Co.	172	3	5.7	Evans (D-3)	No	.71
BR Brantley, N.M.	70	7	14.1	Runnels (D-2)	Yes	1.04
Subtotal	363	20.4	26.5			

Comment: The likelihood of stopping these projects is minimal, given their Congressional support, but while these projects have not created much controversy yet, we expect many of them will. The first three projects above and Dolores are merely poor investments. The Ark-Red Chloride Area VIII project and the Brantley project present policy issues as well. Ark-Red is the Congress' attempt to have the Federal Government assume the cost of reducing the natural salt load of the Ark-Red Rivers, which could lead to similar projects in the West costing billions more; Brantley is an attempt to have the Federal Government assume the full cost of an economically unfavorable replacement for safety reasons of an obsolete dam.

President's Decision: ☒ Deletion from the budget ☐ Leave in ☐ Other

Recapitulation of the dollar amounts discussed above: (See next page)

(\$ in millions)			
	Remaining	Costs thru	1978
I. Projects opposed on environmental and economic grounds:	<u>Costs</u>	<u>1977</u>	<u>Ford Budget</u>
A. Local & Congressional interests divided	503	56	18.6
B. Projects with strong local & Congressional support	<u>2,242</u>	<u>362</u>	<u>211.3</u>
Subtotal, I	<u>2,745</u>	<u>418</u>	<u>229.9</u>
II. Projects opposed on environmental grounds:			
A. Local & Congressional interests divided.....	4,016	271	103.5
B. Projects with strong local & Congressional support	<u>2,638</u>	<u>876</u>	<u>167.9</u>
Subtotal, II	<u>6,654</u>	<u>1,147</u>	<u>271.4</u>
III. Projects opposed on economic or policy grounds:	<u>363</u>	<u>20</u>	<u>26.5</u>
Grand Total.....	9,762	1,585	527.8

Issue Paper

Corps of Engineers-Civil 1978 Budget Budget Amendments for Specifically Opposed Projects

Issue:

Should funds be deleted in the Carter Budget for water projects that the President is reported to have expressed specific opposition to during the campaign -- New Melones, California and Meramec Park, Missouri?

Background:

Though the President indicated general opposition to unnecessary and controversial water resources development projects during the campaign, he is reported to have publicly stated his intentions to stop only two specific projects by name. Both projects have been opposed by environmentalists and others for the past several years.

Meramec Park will cost \$124 M of which \$35 M has been allocated to date. The 1978 Ford request is \$10 M. Most of the money has been spent for land and relocations. Missouri is considering a referendum on the project in April. The Corps is delaying the dam contract until the issue is decided. During the campaign the President is reported to have stated that the dam would not be built if he was elected.

New Melones is expected to cost \$306 M of which \$211 M has been allocated to date. As of January 1, 1977, the dam was 56% complete and the entire project was 50% complete. Governor Brown, prior to his election, opposed New Melones, but has not taken a public position since assuming office. Construction was delayed for a period by a court injunction, and the dam was also the subject of a referendum in 1974. The injunction was lifted and the referendum supported the dam. During the campaign the President is reported to have opposed the dam. The 1978 Ford Budget request is \$68 M.

The OMB guidance letter called for water resource agencies to systematically review all economically and environmentally marginal projects and make recommendations later. The added time was provided to allow the appointment of the Carter team before the review. However, given the President's reported position on these specific projects, it may be necessary to face the question now of whether the funds in the Ford budget for these projects should be retained in the Carter Budget, regardless of the decision on other controversial projects.

Agency Position:

The agency proposes to continue with the concerned projects unless and until directed to do otherwise. It will include them in the overall review called for in the guidance letter.

President's Decision: ☐ Deletion of both projects from the budget ☐ Deletion of Meramec Park only
 ☐ Deletion of New Melones only ☐ Other

QUESTIONABLE WATER RESOURCES PROJECTS -- DEPARTMENT OF INTERIOR, BUREAU OF RECLAMATION

(\$ in millions)

Project Name and State	Authorization and Date	Project Purpose	Benefit/Cost Ratio: -Authoriz. @Z -Marginal @Z	FY 77 Obligation	FY 78 Budget Appropriation Request	Federal Cost to Complete after FY 78	Estimated Total Federal Cost	Estimated Percent Complete Project Total	Adverse environmental impacts and other notations
Central Arizona Project	PL 90-537 1968	Irrigation M&I water power flood control fish & wld.	1.6 @ 3-3/8 1.4 @ 6-3/8	123.1	104.0	1,160.0	1,700.0	6%	Inundation of 18,000 acres of land and 50 miles of stream; flooding National Forest and Indian lands. Loss of fisheries and wildlife habitat; increased salinity in Colorado River. Safety of Orme dam being questioned.
Auburn-Dolsom South Central Valley Proj. California	PL 89-161 1965	Irrigation fish & wld. M&I water recreation	1.61 @ 3-1/8 1.3 @ 6-3/8	37.3	39.7	806.0	1,100.0	16%	Elimination of 43 miles of the American River, 17 archeological sites, 22 historic sites; inundation of 10,000 acres of wildlife habitat; reduced flows would harm downstream fish and wildlife. Safety of Auburn Dam is being questioned.
San Felipe Division, NV	PL 90-72 1967	Irrigation M&I water	1.8 @ 3-1/8 1.41 @ 6-3/8	9.7	20.6	153.1	189.4	7%	Conversion of 13,000 acres of existing pasture and farmland into irrigated cropland, reducing wildlife population; altering salinity in the Delta with effects on fisheries resources; stimulation of urban expansion.
California									
Fruitland Mesa	PL 88-568 1964	Irrigation recreation fish & wld.	0.77 @ 3-1/8 0.6 @ 6-3/8	3.3	7.7	73.7	86.3	3%	Inundation of 584 acres of land and 4 miles of stream. Increased salinity and decreased flows in Colorado River; loss of wildlife habitat, mule deer, and elk. Conversion of grazing land to marginal agricultural land.
Colorado									
Narrows Unit	PL 91-389 1970	Irrigation recreation flood control fish & wld.	1.4 @ 3-1/4 0.8 @ 6-3/8	4.9	9.7	129.2	145.5	2%	Inundation of 15,000 acres of agricultural and wildlife lands; loss of waterfowl, wildlife, over 40 historic and archeological sites, and 15 miles of South Platte River. Potential eutrophication of reservoir, seepage problems.
Colorado									
Savery-Pot Hook	PL 88-568 1964	Irrigation fish & wld. flood control recreation	0.99 @ 3-1/8 0.7 @ 6-3/8	2.3	6.0	60.4	70.5	2%	Increased salinity and reduction of flows of Colorado River and tributaries. Loss of over 1,400 acres of wildlife habitat and 10 miles of stream; possible extinction of two endangered fish species; negative economic benefits.
Colorado									
Wyoming									
North Loup Division	PL 92-514	Irrigation recreation fish & wld.	1.6 @ 3-1/4	1.2	7.0	114.4	123.5	2%	Elimination of over 6,200 acres of wildlife and terrestrial habitat and miles of river; over 4,000 acres of flats would be exposed intermittently. Loss of wildlife; eutrophication in reservoirs; increase in salinity and associated river pollution.
Nebraska									
O'Neill Unit*	PL 92-514 1972	Irrigation recreation fish & wld.	1.7 @ 3-1/4 0.9 @ 6-3/8	1.5	8.1	164.9	176.4	1%	Inundation of 6,300 acres of farm and ranchland, plus 19 miles of scenic river and tributaries; loss of current recreational benefits; reduction of several rare bird species; degradation of downstream water quality.
Nebraska									
Garrison Diversion* Unit	PL 89-108 1965	Irrigation fish & wld. M&I water recreation	1.67 @ 2-1/8 NA @ 6-3/8	24.8	18.7	414.5	562.0	19%	Loss of at least 73,000 acres of productive land; degradation of water quality in three rivers; disruption of 8 National Wildlife Refuges; large energy requirements; displacement of family farmers; increased soil erosion and salinization.
North Dakota, South Dakota									
Oahe Unit*	PL 90-453 1968	Irrigation fish & wld. M&I water recreation	1.6 @ 3-1/8 1.37 @ 6-3/8	18.6	17.0	397.3	457.2	5%	Loss of over 90,000 acres of productive land; channelization of 120 miles of natural river; destruction of 10,000 acres of wetlands; increased downstream salinity and flooding; adverse effects on rare and endangered species.
South Dakota									
Palmetto Bend	FL 90-562 1968	M&I water recreation fish & wld. hwy improvement	2.4 @ 3-1/8 3.87 @ 6-3/8	19.2	12.1	10.6	73.9	49%	Inundation of over 11,000 acres of wildlife habitat and 47 miles of streams; reduction of downstream estuarine productivity including commercial and sport fisheries; adverse impacts on several endangered species.
Texas									
Central Utah Project, Bonneville Unit	PL 84-485 1956	Irrigation M&I water power fish & wld. recreation	1.3 @ 2-1/2 0.9 @ 6-3/8	24.6	32.0	598.6	733.0	16%	Flooding of 22,000 acres of range and cropland; drainage of 25,000 acres of marsh and wildlife habitat; destruction of 200 miles of high quality streams, associated trout fisheries; downstream flow reduction; increased Colorado River salinity.
Utah									
TOTALS:				\$270.7	\$282.6	\$ 4,082.7	\$ 5,417.7	(12 Bureau of Reclamation Projects)	
GRAND TOTAL:				\$550.4	\$466.3	11,727.9	14,664.3	(18 Corps of Engineers Projects and 12 Bureau of Reclamation Projects).	

* Unit of Pick-Sloan Missouri Basin Program.

QUESTIONABLE WATER RESOURCES PROJECTS -- U.S. ARMY CORPS OF ENGINEERS

February 1977

(\$ in millions)

CEQ

Project Name and State	Author-ization and Date	Project Purpose	Benefit/Cost Ratio: -Authoriz. @% -Marginal @%	FY 77 Obliga-tions	Ford FY 78 Budget Approp-riation Request	Federal Cost to Complete after FY 78	Estimated Total Federal Cost	Estimated Percent Complete: -Project Total -Construction	Adverse Environmental Impacts and Other Notations
Tenn.-Tombigbee Waterway	Rivers & Harbors Act 1946	navigation area redev. recreation fish & wld.	1.1 @3-1/4 0.8 @6-3/8	101.1	157.0	979.4	1,410.0	10% 5%	Loss of over 300 miles of scenic river and wildlife habitat, and up to 70,000 acres of forest and agricultural lands. Major adverse dredge and fill impacts.
Alabama Miss.									
Upper Susitna River Basin	W.R. Devel Act 1976	hydropower area redev. recreation fld control	1.3 @6-3/8	0.0	0.0	1,668.4	1,668.4	0% 0%	Destruction of 82 miles of Susitna River; flooding of over 50,000 acres of wilderness, big game habitat, and fisheries; loss of recreation potential; water quality problems.
Alaska									
Cache Basin	Flood Control Acts 1950; W.R. Devel Act 1974	fld control area redev. fish & wld.	3.9 @3-1/4 2.2 @6-3/8	5.2	2.0	83.8	93.2	2% 1%	Channelization of 232 miles of river; loss of up to 170,000 acres of productive hardwood forest and prime fish, waterfowl and wildlife wetlands habitat; creation of downstream flood and water quality problems.
Arkansas									
Dry Creek (Warm Springs)	Flood Control Act 1962	fld control wtr supply recreation area redev. fish & wld.	1.1 @3-1/8 0.86 @6-3/8	2.3	0.6	161.3	206.0	31% 10%	Loss of 17,000 acres of productive agricultural land, fisheries and wildlife habitat. Degradation of water quality; possible mercury contamination. Dam site on geologic fault.
Calif.									
New Melones	Flood Control Act 1942/62	Multi-purpose: hydropower fld control irrigation	1.5 @3-1/8 1.4 @6-3/8	63.7	68.0	27.4	306.0	56% 50%	Inundation of 10,000 acres of land and 16 miles of Stanislaus River, with loss of white-water boating, riverside hiking, caving; elimination of trout fishery.
Calif.									
Central & South Florida	Flood Control Act 1965	fld control wtr supply	5.1 @2-1/2 2.1 @6-3/8	6.3	8.0	321.8	559.0	41% 38%	Disruption of natural water regime in several million acres; extensive loss of wetlands and wildlife; flooding around Lake Okeechobee; pollution of Everglades National Park.
Florida									
R.B. Russell Dam (Tr. Shoals) Ga. S.C.	Flood Control Act 1966	Multi-purpose: hydropower recreation area redev.	2.2 @3-1/4 1.3 @6-3/8	10.4	21.0	205.9	248.0	9% 1%	Inundation of over 26,000 acres of land and 29 miles of the last undeveloped reach of the Savannah River in the Piedmont Plateau; elimination of fish, wildlife, timber, and recreational resources.

State	Control Act	fld control wtr quality fish & wld	1.1	@3-1/4	8.6	16.0	24.6	55.7	30%	
Kansas	Control Act 1954		1.1	@6-3/8					4%	Flooding of over 47,000 acres of productive agricultural lands and 12 miles of free-flowing stream; adverse impacts on downstream wetlands; relocation of 92 families.
Paints-ville Lake	Flood Control Act 1965	recreation wtr quality fld control area redev.	1.2	@3-1/4	3.7	7.3	23.3	41.1	27%	Conversion of over 12,000 acres of farm and forest land to project purposes; flooding of 30 archeological sites and up to 4.4 million tons of recoverable coal reserves; water quality problems from potential oil seepage.
Kentucky			1.12	@6-3/8					4%	
Yates-ville Lake	Flood Control Act 1965	recreation fld control wtr quality area redev.	1.2	@3-1/4	4.2	7.2	38.7	56.9	19%	Flooding of 6,000 acres of productive agricultural and forest land; water quality problems expected from oil spills, industrial and domestic waste sources - project designed only for 25 year flood, rather than usual 100-year level.
Kentucky			0.68	@6-3/8					2%	
Atchaf-alaya Basin	Flood Control Acts '28, '34, '36, '38, '41, '46, '50, '54	fld control navigation	10.6	@6-3/8	35.0	28.0	576.2	903.0	33%	Major disruption of largest inland wetlands ecosystem in U.S. Major loss of wildlife, timber and fisheries resources; downstream adverse impacts include flooding, sedimentation and dredging.
La.			10.5	@6-3/8					30%	
Atchaf-alaya River & Bayous Chene, Boeuf & Black	R&H Act 1968 WRD Act 1974	navigation area redev. fld control	2.3	@3-1/4	4.5	5.1	4.9	20.3	50%	Destruction of over 7,000 acres of Louisiana's most productive coastal wetland, adversely affecting shrimp, oysters, menhaden, and other commercial fisheries. Dredging will degrade existing water quality.
			2.7	@6-3/8					50%	
Red River Waterway Miss. to Shreveport	R&H Act 1968	navigation fld control area redev.	1.06	@3-1/4	18.0	26.0	817.8	905.0	7%	Conversion of nearly 300 miles of natural free-flowing river into a navigation channel; loss of over 5,000 acres of wetlands and wildlife habitat. 43,100 acres of agricultural or forest lands would be lost or altered.
La.			0.9	@6-3/8					2%	
Dickey-Lincoln School Lakes	Flood Control Act 1965	hydropower recreation	2.6	@3-1/4	2.0	1.0	533.0	533.0	0%	Destruction of over 50 miles of scenic St. John River and tributaries, flooding over 80,000 acres of timber-producing forest and big-game wildlife habitat; loss of prime white-water canoeing and trout fishing.
Maine			2.1	@6-3/8						

Meramec Park Lake Mo.	Flood Control Act 1938	fld control recreation wtr supply	1.9	@3-1/4	9.5	10.0	78.7	124.0	22%	Destruction of 47 miles of free-flowing scenic recreational stream and 12,600 acres of bottomland hardwood forest and associated fish and wildlife habitat. Caves and porous rocks at dam site raise safety concerns.
			1.3	@6-3/8					5%	
Lukfata Lake Okla.	Flood Control Act 1958	fld control wtr supply recreation	1.3	@3-1/4	0.6	0.2	29.4	31.5	6%	Inundation of 18 miles of river and over 6,000 acres of land, including important wildlife habitat and bottomland hardwood forest. Glover Creek is the last significant free-flowing stream in Oklahoma and Arkansas mountains.
			1.01	@6-3/8					0%	
Apple- gate Lake Oregon Calif.	Flood Control Act 1962, WRD Act 1974	fld control recreation fish & wld	1.4	@3-1/4	3.5	7.4	60.6	75.5	10%	Inundation of 988 acres of agricultural land and 8 miles of free-flowing river. Destruction of 1500 acres of wildlife habitat, elimination of sport fish migration; potential health threat from mercury at lake site.
			0.49	@6-3/8					0%	
Trinity River Texas	R&H Act 1965	fld control recreation wtr supply	1.7	@3-1/4	0.8	0.9	2,010.0	2,010.0	0%	Conversion of 548 miles of natural meandering river into a 363 mile channel. Disruption of coastal marshes and estuaries; extensive losses of fish and wildlife.
			N.A.	@6-3/8					0%	
TOTALS					279.4	363.7	7,645.2	9,246.6		

QUESTIONABLE WATER RESOURCES PROJECTS

February 1977
CEQ

Summary Sheet-Adverse Impacts
and Policy Conflicts

		eliminates substantial agric. and/or forest production	destroys substantial wildlife habitat	eliminates substantial commercial and/or sport fisheries	degrades and/or sport water quality	induces undesirable floodplain development	eliminates potential existing or adversely affects rate of endangered species flooding	may increase downstream significant displacement of area residents	destroys historic or archeological sites or adversely affects national park, wilderness or other scenic rivers potential safety or structural problems
CORPS OF ENGINEERS									
Tennessee-Tombigbee	Ala. Miss.	X	X	X	X		X	X	X
Upper Susitna River Basin	Alsk.	X	X	X	X		X		X
Cache Basin	Ark.	X	X	X	X		X		X
Dry Creek (Warm Springs)	Cal.	X	X	X	X	X			X
New Melones Dam	Cal.		X	X	X	X		X	X
Central & Southern Florida	Fla.	X	X	X	X	X			X
R.B. Russell Dam	Ga. S.C.	X	X	X	X	X		X	X
Hillsdale Lake	Kan.	X	X		X			X	X
Paintsville Lake	Ky.	X	X	X	X	X		X	
Yatesville Lake	Ky.	X	X	X	X	X			
Atchafalaya Basin	La.	X	X	X	X	X		X	
Atchafalaya River & Bayous Chene	La.		X	X	X	X			
Red River Waterway: Miss. to Shreveport	La.	X	X	X	X	X		X	
Dickey-Lincoln School Lakes	Me.	X	X	X	X	X			X
Meramec Park Lake	Mo.	X	X		X	X	X		X
Lukfata Lake	Okla.	X	X		X	X	X		X
Applegate Lake	Ore. Cal.	X	X	X	X	X	X		
Trinity River	Tex.	X	X	X	X		X		X
BUREAU OF RECLAMATION									
Central Arizona Project	Ariz.	X	X	X	X	X	X	X	X
Auburn-Folsom South CVP	Cal.		X	X		X		X	X
San Felipe Division CVP	Cal.		X	X	X			X	
Fruitland Mesa	Colo.		X	X	X				
Narrows Unit	Colo.	X	X	X	X	X		X	
Savery-Pot Hook	Colo. Wyo.		X	X	X		X		
North Loup Division	Neb.		X		X	X	X		
O'Neill Unit	Neb.	X	X	X	X	X	X		X
Garrison Diversion	N.D. S.D.	X	X		X	X	X	X	X
Oahe Unit	S.D.	X	X		X		X	X	
Palmetto Bend	Tex.	X	X	X	X		X		
Central Utah Project Bonneville Unit	Utah	X	X	X	X	X			X

To Bob Linder for off-set 2/15/77
4:51 P.M.

Sharon

THE WHITE HOUSE
WASHINGTON

*Press — The
George Harrison*

*2M 360
0403*

THE WHITE HOUSE
WASHINGTON

Sharon -

This is up with Bob Linder
for preparing memos and
with a question ---

Let's discuss when he returns the
memos --- meanwhile it can be
logged out.

Trudy

THE WHITE HOUSE
WASHINGTON

Sharon:

Send copies to:

VP
Lipshutz
Jordan
Watson
Moore
Powell
Costanza
Jim Fallows
Greg Schneiders
Brzezinski
Schlesinger
MacBean
Kraft
Aragon
Mitchell
Bourne
King
Harden
H. Carter
Bert Lance
Charles Schlutze

also to: Science Advisor
head of C&Q

copy back to me

*Do you want
this?*
*Stewart
Brewer*
John Brewster

THE WHITE HOUSE
WASHINGTON

The attached memorandum
was prepared at the
President's direction,
and has been approved
by him.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

MEMORANDUM TO MEMBERS OF THE WHITE HOUSE STAFF AND
THE EXECUTIVE OFFICE OF THE PRESIDENT

The President's paperwork is excessive. All material intended for the President should be given to Rick Hutcheson, the Staff Secretary, rather than directly to the President. This will help keep the President's paperwork within manageable limits, and help ensure that appropriate staff work is done.

Memoranda intended for the President from members of the Cabinet should be given to Jack Watson. Jack, in turn, will give this material to Rick for transmittal to the President.

Routine national security material should also be channeled through Rick.

In matters of urgency or confidentiality, however, Cabinet officers and staff can always deal directly with the President.

50

THE WHITE HOUSE
WASHINGTON

MEMORANDUM TO MEMBERS OF THE WHITE HOUSE STAFF AND
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Memoranda intended for the President from members of the Cabinet should be given to Jack Watson. Jack, in turn, will give this material to Rick for transmittal to the President.

Routine national security material should also be channeled through Rick. ^{HP} In matters of ~~great~~ urgency or confidentiality, however, *Cabinet Officers and Staff can always* ~~Dr. Brzezinski or Secretaries Vance and Brown will~~ deal directly with the President.

**Electrostatic Copy Made
for Preservation Purposes**

THE WHITE HOUSE
WASHINGTON

C.F.

PP 7-1

②

February 14, 1977

MEETING FOR HERM RUSSELL, VERNON JORDAN,
AND JESSE HILL, JR.

The Oval Office

Tuesday, February 15, 1977

3:00 p.m. (20 minutes)

From: Hamilton Jordan

I. PURPOSE : To meet with Messrs. Jordan, Russell
and Hill at their request.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This meeting was requested
a few weeks ago and the request was made
again by Vernon Jordan when I met with him
on February 2nd. In the meantime, Bunny Mitchell
has been in contact with Herm and Jesse since
then. Their purpose in requesting the meeting
is to touch base; get a reading on the state
of black involvement in the Administration,
particularly policy input and personnel
matters; and share information they've received
with the President.

Meetings have been arranged for Herm and Jesse
with Secretaries Harris, Adams and Kreps
and Herm Russell has indicated all of the
sessions were very positive. All three
Secretaries agreed with this assessment
according to Bunny Mitchell.

B. Participants:
Vernon Jordan
Herm Russell
Jesse Hill, Jr.
Hamilton Jordan
Bunny Mitchell
Jack Watson

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for Preservation Purposes**

C. Press Plan: No press coverage. White House
photographer.

III. TALKING POINTS:

1. I understand that Herm and Jesse have been in contact with Bunny and that you have met with Pat Harris, Brock Adams and Juanita Kreps. I am glad to have this interaction with my Cabinet officers and hope it will continue.
2. (In addition, Vernon Jordan has requested you speak to the National Urban League at its Annual Conference in July. He may bring this up at the meeting. Tim Kraft has it under consideration and will be making a recommendation to you.
(TAB A)

file 2/15

THE WHITE HOUSE
WASHINGTON

February 17, 1977

Jack Watson -

On February 15th the original memorandum from Charlie Schultze was sent to you for distribution to Cabinet Officers and other Agency Heads.

The attached correction is now sent to you with the request that any copies distributed be corrected.

Rick Hutcheson

Re: Government Actions Affecting
Prices



THE WHITE HOUSE
WASHINGTON

Mr. President:

I will send copies of
the correction to others
who received the original
memorandum from Schultze.

Rick

Trudy - pls
have this done
Rich

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: CHARLIE SCHULTZE *CLS*

SUBJECT: Government Actions Affecting Prices -- A Correction

My memo to you of February 10, 1977, described a large number of government actions affecting prices. The memo noted that the estimates of costs associated with various actions were very rough. They were assembled from a number of sources simply to give you some idea of what is involved.

One of the numerical examples, I now find, was substantially in error -- although the main point still stands.

The memo stated that "one of the noise limits imposed by OSHA is estimated to cost \$18 million per hearing impairment prevented".

The memo should have stated, "compared to a less expensive alternative, one of the noise standards being reviewed by OSHA is estimated to cost \$668,000 per additional hearing impairment prevented".

I didn't want a set of essentially valid points to be nullified by the error in one example.

This seems to be my week for technical errors. I hope you assume that like the weather, it's abnormal.

Electrostatic Copy Made
for Preservation Purposes



THE WHITE HOUSE
WASHINGTON

2-15-77

To Cabinet Officers and
other Agency Heads

This is an excellent memorandum. Please study it carefully & let me know through Jack Watson what you can do to help.

Obviously, some of the inflationary actions are needed, but so is common sense.

Jimmy

cc: Stu
Tody

Electrostatic Copy Made
for Preservation Purposes

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Stu Eizenstat
Jody Powell

The attached is forwarded to
for your information.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Jack Watson

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling. Extra copies of the
President's memo are available
from this office.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

CFF - set memo from Vincent
cc to

Contract & agency
~~from P. Ray - SEA ordered~~
~~Ray Castle - EPA and JH~~
~~from Brian - Action~~

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

February 10, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: CHARLIE SCHULTZE *CLS*

SUBJECT: Government Actions Directly Affecting Prices

I asked the staff at the Council on Wage and Price Stability to prepare a list of pending federal actions which could have a direct impact on prices (Attachment I).

The cost estimates are necessarily very rough, but this gives some idea of the importance of the actions. As you will see from the list, many of the actions are probably worthwhile -- yet they do raise costs and prices.

Attachment II is a more general memo, outlining the seven major categories of actions by which the federal government directly affects costs and prices.



Attachment 1

Pending Federal Actions Which Would Affect Prices

ITC

Decision on Nonrubber Footwear Recommendation -- Estimates of the cost to the American economy of the ITC tariff-quota recommendation range between \$190 million and \$3.2 billion annually.

Color T.V. Investigation -- The cost to the American economy of the requested import relief remedy (quotas) would be over \$300 million annually at the wholesale level.

Sugar Investigation -- Costs to consumers of protection action (tariff or quota) could be over \$300 million annually with net costs to the economy being substantially lower; price increase of two to 12 percent.

CAB

Airline Load-Factor Standard -- It is estimated that raising the standard to 65 percent full would save consumers \$1 billion annually.

Midway Airlines Route Application -- New entry would reduce fares by 34 to 53 percent on the affected routes.

Domestic Traffic Fill-Up Rights -- No quantitative estimates of effects of allowing Pan American Airways to fill up unused space on domestic portions of its flights.

World Airways Route Application -- Proposed fare for operation between East and West Coast is \$89 (approximately one-half the current fare).

EPA

Underground Injection Control -- This involves capital costs of \$225 million and annualized costs of \$74 million.

Iron and Steel Effluents -- Incremental capital costs are estimated at \$674 million; price increase of \$4.69 per ton in 1983.

Air Emission Standards for Heavy-Duty Engines -- Total costs for 1979 to 1983 estimated to be between \$367 and \$378 million.

New Kraft Pulp Mills -- Estimated incremental capital costs of \$104 million by 1981.

EPA Effluent Guidelines for Paper Industry -- Estimated \$1 billion increase in capital costs.

OSHA

Industrial Noise Standards -- Estimates of the present value of the costs of compliance range up to \$29.5 billion for the most stringent standard.

Coke Ovens Standard (promulgated but not yet effective) -- Estimates of costs of compliance are between \$160 million and \$1.2 billion annually.

Cotton Dust Standard -- Proposed OSHA standard would cost \$242 million annually and textile union standard \$621 million annually.

Arsenic Standard -- Estimated annualized costs are \$111 million.

Lead Standard -- Estimated annualized costs are between \$253 and \$486 million.

Diving Standards -- Estimated annual cost of \$20 to \$70 million in an industry with annual gross revenues of about \$70 million.

CPSC

Lawn Mower Standard -- Estimated costs of complying with a previously developed standard range between \$260 and \$520 million; effect on prices between 13 and 74 percent.

USDA

Milk Price Supports -- Estimates from a previous year indicate cost to consumers of 80 percent of parity support level are upwards of \$150 million annually; recent estimate of cost of government purchases at that level on April 1, 1977 is almost \$600 million.

Agricultural Legislation -- No cost estimates for a variety of legislation expected this year.

DOT

FAA Aircraft Noise Regulations -- Estimated costs of \$7.7 to \$9.7 billion.

NHTSA Airbag Demonstration Program -- Estimated total cost of \$90 million.

Mandatory Airbag Standard -- Estimated to cost \$100 per car or approximately \$1 billion annually.

Coast Guard Segregated Ballast Regulations -- Would cost \$10 million and increase freight costs by 20 percent for affected vessels.

Hour of Service for Truckdrivers (BMCS) -- Possible costs of over \$50 million annually.

HEW

FDA-DES -- Estimated annual cost increase of \$156 million and two cents per pound increase on beef prices.

FDA-Nitrofurans -- Estimated annual cost increase of between \$164 million and \$2.6 billion; possible price increases of 35.9 cents per dozen eggs, 11.5 cents per pound of chicken, 7.1 cents per pound of turkey, 12.2 cents per pound of pork. 7

Nondiscrimination on Basis of Handicap -- One-time educational construction cost increases of \$214 to \$474 million.

ICC

Modification of Agricultural Cooperative Exemptions -- Costs of shipping eliminated from exemption could rise by 20 to 35 percent; no total cost estimates available.

Implementation of Railroad Revitalization and Regulatory Reform Act -- Efficiency depends on ICC's approach.

FCC

UHF Noise -- Annual costs of improved receivers estimated to be between \$30 and \$100 million.

FEA

Exemption of Motor Gasoline from Mandatory Allocation and Price Regulations -- A one cent increase (decrease) in the price of a gallon of gasoline would cost (save) \$600 million per year.

Entitlement Program Adjustments for Imported Residual Oil -- Prices will not rise on the average but regional distributional impacts could be as much as \$1 billion annually.

Burning of Coal by Utilities -- No cost estimates.

Attachment II

How the Federal Government's Actions Directly Affect Prices

You asked me at the Cabinet meeting on Monday to give you a memo on this subject.

In addition to its fiscal and monetary policies -- which affect prices and wages indirectly through changes in demand -- the government can affect prices directly in a number of ways:

1. Direct regulation of prices and competition in specific industries: (transportation regulation, utilities regulation).
2. Environmental, safety and other regulations which raise costs.
3. Government purchasing practices: -- cost plus reimbursement of hospitals; Davis-Bacon wage provisions in construction grants, etc.
4. Agricultural policies; price supports and marketing orders.
5. Social programs and performance standards that raise costs: i.e. ambitious day-care standards;
6. Tariff and trade policies.
7. Tax policies; e.g. raising payroll taxes

In many cases some cost and price increases are the inevitable consequence of meeting important goals -- industrial pollution can't be cleaned up without adding to industry costs. There is an unavoidable conflict between two objectives -- price stability vs. a clean environment.

But there are many instances of unnecessary cost or price raising practices.

- o some regulations serve no legitimate national purpose, but simply protect special interests at consumer expense (a large part of railroad, trucking and airline regulation).

- o some programs serve legitimate national objectives but do so in an unnecessarily inflationary way (parts of environmental and safety regulation).

- o some actions increase costs and prices in an attempt to preserve declining industries (many tariffs and quotas).

- o sometimes actions are taken which provide small positive benefits at very large additions to costs and prices (one of the noise limits imposed by OSHA is estimated to cost \$18 million per hearing impairment prevented).

There is attached a brief set of statements, (one for each of the above 7 categories) giving some examples.

As you look at these statements you can see that in almost every case there are difficult substantive or political problems involved.

Appendix to Attachment II

1. Direct Regulation of Individual Industries

In most cases these activities are under the control of independent agencies with authority to set prices, control entry of new firms, and establish standards of performance for an industry. Examples are the Interstate Commerce Commission, Civil Aeronautics Board, and Federal Power Commission. These agencies were originally established because the technical nature of the services being performed by the industry were such that competition among individual firms was not practical or highly inefficient.

- o Regulation, however, has frequently increased prices unnecessarily because:
 - (a) the commissions have failed to take account of technological changes which made more competition feasible (for example, railroads constitute far less of a monopoly threat in an age of extensive development of motor freight, airlines, and inland waterways);
 - (b) they have been "captured" by the industry in the sense that they are primarily concerned with protecting the turf for existing firms in the industry and thus protect the inefficient against competition;
 - Truck routes are highly circuitous, the type of freight that can be carried on return trip is severely restricted, and intermediate stops are frequently prohibited.
 - Shippers compete through frequency of service, since rate reductions are prohibited, and the result is small loads and excess costs -- particularly fuel.
 - (c) the fixing of rates has forced firms to compete in other areas such as quality of service which raise costs -- the consumer is not offered the choice of lower price with fewer frills;
 - The existence of a large demand for transportation services at lower prices and fewer "frills" is well illustrated by the popularity of charter flights and other reduced fare systems after the CAB was induced to allow them. In both Texas and California intrastate airlines which are subject to federal safety standards but exempt from federal restrictions

on fares and routes charge substantially lower fares.

- (d) Similar problems have resulted in the wasteful use of railroad freight cars and periodic shortages because the regulations sharply limit the charge for holding cars for an excessive period of unloading. The average freight car moves less than 50 miles per day and is often used as a "cheap" warehouse facility.

2. Cost Influencing Regulations

In other areas of regulation the government does not attempt to control prices or entry into the industry. Instead, it sets performance standards which increase costs and thus prices. Two areas of current controversy involve the Occupational Safety and Health Administration (OSHA) and the Environmental Protection Agency (EPA). There are, however, many similar types of activities which have operated for a longer period of time: highway safety, mine safety, and regulatory activities of the Food and Drug activities. There has been a great acceleration in the growth of this form of regulation over the last decade.

- o Criticism of these activities generally have focused around these concerns:
 - In some cases goals have been too stringent relative to the costs of compliance;
 - there has been too much effort devoted to a detailed specification of the methods by which industry should meet the standards; and
 - there has been little concern shown for devising means of influencing private incentives to achieve the goals at lower overall costs.
- o In the case of EPA, for example, the agency attempts to establish water pollution limits for each industry based upon "best available technology".
 - The agency cannot know detailed technology to this extent;
 - the law invites expensive court tests of what is the best available technology;
 - it requires issuing detailed guidelines for each industry;

- the agency encounters insuperable problems of trying to keep the guidelines up to date with respect to technological changes;
 - no firm has an incentive to improve the technology since it will only result in more stringent standards;
 - because of the uncertainty surrounding these regulations, investment plans of some industries have been disrupted, contributing to the problem of capacity shortages.
 - This may be a case where the goals are desirable but the method used to achieve them could be sharply improved with consequently less impact on costs.
 - One approach is to tax pollutants; industry would have to pay a stiff tax on each unit of pollutant it discharged; it would then be in each firm's interest to reduce pollution in order to raise profits.
- o OSHA sets safety standards that reflect the maximum technologically feasible level of protection, without regard to economic criteria. The agency has focused, particularly, on mandating the method of increasing worker safety -- the inputs -- rather than the result.
- The proposed regulation to limit noise levels to 85 DBA and force compliance through engineering controls is estimated to cost \$28 billion over the next 20 years. The alternative of protective ear devices -- earplugs -- was rejected because workers might choose not to wear them.
 - Engineering changes to reduce carcinogen emissions from coke ovens are estimated to cost \$1 billion. Respirators provided a more effective, and less costly, protective device -- they probably should be worn even after the engineering changes. But, OSHA has mandated that such personal protective devices are to be used on an interim basis only.

3. Government Purchasing Practices

The procedures governing government purchases of goods and services and those relating to grant programs frequently prevent the government from minimizing procurement costs.

- Nonuniform procurement specifications, together with quality requirements which often exceed the standards of a manufacturer's normal product line, limit potential economies of scale and force manufacturers to incur higher costs to make their products acceptable to all agencies.
- Cost-plus contracting wipes out the normal cost-minimizing incentives of producers.
- The Davis-Bacon Act sets minimum wages and working conditions for all federal and federally aided construction projects. The "prevailing wages" standard has been interpreted, in practice, by the Department of Labor to be union levels in the nearest large metropolitan area. Contractors who would, in a more competitive situation, bid lower for the contract are legally forbidden from doing so. In areas where federal construction is of major importance, this provision provides major market support for high wage rates.
- Federal reimbursement of costs in programs such as Medicare and Medicaid sharply limit private incentives to minimize costs.

4. Agricultural Policies

Agricultural policies have a particularly direct impact on prices. Although specific actions may be justified, they need to be carefully assessed in terms of the impact on prices. The type of actions which have been used fell into several categories:

- Restriction of production has included acreage allotments for specific crops, payments to farmers to convert land into less productive uses, and requirements to "set aside" cropland acres as a prerequisite to participation in government price support programs.
- Marketing orders do not establish prices by government action but they do grant powers to produce groups to control the flow of products to different markets (fresh use, processing and exports) as a means of holding up prices for fresh products.
- Import Restrictions may involve the use of either direct tariffs or quotas as in the case of sugar and meat. But in other cases extreme inspection, size, or grade standards are used as a device for limiting exports -- notably with respect to winter vegetables from Mexico.

5. Introduction of New Federal Programs or Very Ambitious Performance Standards

There have been several instances where the introduction of new Federal programs has sharply increased demand in a particular market without adequate prior considerations of the need to expand supply.

- o The introduction of Medicare and Medicaid sharply raised the demand for medical services by the elderly and the poor. This strained the availability of resources in this area (because there was no prior planning for measures to raise supply) and led to a significant acceleration of medical care price inflation in the mid-1960's.
- o The size of the capital grant program for municipal sewage treatment plants and the short time period over which it is to be accomplished has resulted in shortages of construction firms with the capability for such work and large cost overruns.
- o The Federal day-care system for low income families set very high performance standards on the grounds that the federal government would not offer second-class services. Many States then raised their standard in order not to be outdone by the federal government. Since then they have moved to regulate standards for the private sector to prevent "cheap" competition. As a result, middle income groups could no longer afford the services available to them and asked for and received tax relief.

6. Tariff Policies

To the extent that exchange rates control the overall balance of exports and imports, tariffs and quotas raise prices for U. S. consumers and business and lower the exports of those goods where the U. S. has an advantage in international markets.

- The recent tripling of the tariff on sugar, for example, will cost American consumers \$200 million/year.
- The proposed increase in the tariff on shoes will have a direct tariff cost of \$190 million. But taking into

account the repercussions on increased prices for domestically produced shoes, once foreign competition is reduced, the cost to consumers could range up to \$2 billion.

- Granting the request of the domestic industry for quotas on color television imports could cost about \$300 million in the form of higher prices.

7. Tax Policy

The effects of tax policy on capital formation and other incentives to expand supply (and thus lower prices) is a highly complex subject on which there is no general agreement. However, some taxes have a much more direct effect on costs and prices than others.

- o Sales and excise taxes contribute directly to higher prices in the short run. Federal excise tax rates have generally declined over the last decade; however, State and local sales tax rates have continued to rise.
- o Social security payroll taxes contribute directly to higher labor costs and so to prices. Social insurance taxes have increased at twice the rate of growth of wage and salary payments and now account for 15 percent of all employment costs.

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Frank Moore -

The original of the attached memo
was delivered to Z. Brzezinski.
This copy is for your information.

Rick Hutcheson

Re: NSC Congressional Relations
Man

rick.. since I had other things
to send directly to Dr. "B"....
I hand carried this to him.
copy is for your info and files
if needed.

-- susan clough

THE WHITE HOUSE

WASHINGTON

2-14-77

To Zbig:

I did not like the press briefing given last week on the MIA meeting.

Also, we are giving conflicting signals on Capitol Hill with Schacter & Bennett both representing my, your & Cy's position. I really see no reason why NSC needs a Congressional relations person.

J. C.

2/15/77

THE WHITE HOUSE
WASHINGTON

File

THE PRESIDENT HAS SEEN.

TOAST AT STATE DINNER

The following points underlie the draft toast:

- 1) That our nations have, in the past, endured the problems that neighbors often have.
- 2) But now we are ready to cooperate, with mutual respect, to meet the challenges raised by common borders, common problems, and common interests.
- 3) One of our similarities is our re-dedication to the ideals of both our revolutions.
- 4) Another similarity is the goals both leaders have for their people--material improvement, human dignity, governmental competence and honor.
- 5) Mexico can be particularly proud of achieving the goal of mutual respect between different races and cultures.
- 6) Finally, we share similar goals in the world--while we may disagree on tactics we agree on aims.
- 7) Remembering our similarities, realizing that we may have disagreements among equals, we are ready to make a new beginning in working together.

Here is the draft:

"The President of Mexico and his wife are the first official guests to honor us by visiting the United States during this administration. There are few countries with whom we have closer ties. And I do not mean only ties between governments, but also the more important ties between our people. Mexicans know the United States and Americans know Mexico in a way that goes far beyond our official and diplomatic contacts.

"As neighbors in this hemisphere, we have sometimes faced the problems that neighbors often have. One of your predecessors in office, Mr. President, used to say, 'Poor Mexico, so far from God, and so near to the United States.'

"On the principle of the separation of Church and state, I cannot comment on your distance from God--though I am sure it is not great at all. But I do know that your geographical closeness to us, and ours to you, now gives us a special challenge. That is to use our common border, our common problems, and our common interests as a spur to common efforts for a better life. Our discussions today show that we are both eager to meet that challenge.

"We have many sources of common strength. This past year, the United States celebrated its bicentennial, with grass-roots ceremonies all across the nation. The meaning of that year, as I said in my inaugural address, was to make a new commitment, and find a new meaning, in our old dream.

"Your revolution is more recent than ours, but it is also a living ideal. Octavio Paz--who, like you, Mr. President, is both a distinguished writer and a public servant--has said that your revolution is 'an explosive and authentic revelation of /Mexico's/ real nature....a movement attempting to reconquer /Mexico's/ past, to assimilate it and make it live in the present.'

"Both of us find our greatest strength in being true to ourselves.

"As leaders, we have common goals. You seek to improve the material conditions for your people, to provide satisfying jobs for everyone able to perform them, to ensure your people the dignity they deserve, and to give your nation a government of which it is proud. Our goals here are the same.

"Your nation, like ours, is devoted to the goal of mutual respect, among many races and cultures, within one nation. Your success in the

historic integration of two great cultures, Indian and Spanish, is a proud example to all the rest of the world.

"We share common goals in our foreign policies. We in the United States are especially proud of the front-line role Mexico has taken in trying to solve the problems of peace, disarmament, social justice, and a fair distribution of the world's resources.

"Sometimes we may disagree on the right way to achieve these goals. But we do not disagree on the need to do so. And our disagreements are disagreements between equals, another sign of mutual respect between two sovereign nations.

"I hope that you will join me, Mr. President, in making a new commitment this evening to the other nations of the Americas--a new commitment to democracy, to social and economic justice, and to non-intervention in the internal affairs of other nations. As your distinguished predecessor Benito Juarez put it, 'Entre los hombres como entre las naciones, el respeto al derecho ajeno es la paz.'

"So, Mr. President, I would say that we have a great deal going for us. Tolerance and mutual sympathy will be required. It will not always be easy to lay to rest the ghost of Yankee imperialism.

I am from Georgia and I understand that. But I am in Washington now and I promise my best effort to remove that ghost from our future.

"As you and I, two new Presidents, begin our administrations together, may our countries remain united in their desire to assist each other and understand each other's problems and hopes and fears.

"In that spirit I salute you, Mr. President, and the great country you represent.

"Viva Mexico!"

THE WHITE HOUSE
WASHINGTON

February 15, 1977

Bert Lance:

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

cc: Stu Eizenstat
Jack Watson

Re: Current Status of the Budget
Outlook



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

ACTION

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR: THE PRESIDENT

FROM: Bert Lance, Director *Bla-*

SUBJECT: Current Status of the Budget Outlook

The first part of this memorandum discusses the overall budget outlook for fiscal years 1977 and 1978 and the effect on the budget of alternative economic assumptions. It provides a broad perspective from which to view the individual agency issues that you will be considering in the days ahead. The significant issues are discussed briefly in the second part of this memorandum.

Part I.--The Overall Budget Outlook

Table 1 compares OMB and agency recommendations for fiscal years 1977 and 1978. As shown, OMB recommendations for 1978 outlays are below the \$462 billion target level recommended by Charlie Schultze while agency recommendations are above that level.

Table 1.--OMB and Agency Recommendations
(in billions of dollars)

	1976 actual	1977 estimate		1978 estimate	
		OMB	Agency	OMB	Agency
Receipts.....	300.0	349.5	349.5	401.9	401.9
Outlays.....	366.5	417.7	418.0	458.5	462.8
Deficit (-)...	-66.5	-68.2	-68.5	-56.6	-60.9

Table 2 relates Ford budget levels to original guidance levels and to current OMB and agency recommendations.

Table 2.-- The Budget Outlook, 1977-78
(fiscal years; in billions of dollars)

	1977			1978		
	<u>Outlays</u>	<u>Receipts</u>	<u>Deficit</u>	<u>Outlays</u>	<u>Receipts</u>	<u>Deficit</u>
Ford budget recommendations.....	411.2	354.0	57.2	440.0	393.0	47.0
Removal of Ford proposals.....	<u>*</u>	<u>6.9</u>	<u>-6.9</u>	<u>5.4</u>	<u>14.6</u>	<u>-9.2</u>
Current services estimates consistent with January budget.....	411.2	360.9	50.3	445.4	407.6	37.8
Fiscal stimulus program.....	4.9	-10.6	15.5	8.1	-7.6	15.7
Other proposals and reestimates in initial guidance to agencies.	<u>1.9</u>	<u>-0.8</u>	<u>2.7</u>	<u>3.9</u>	<u>1.9</u>	<u>2.0</u>
Totals based on initial OMB guidance to agencies.....	418.0	349.5	68.5	457.4	401.9	55.5
Subsequent changes and reestimates to date	<u>-3</u>	<u>---</u>	<u>-.3</u>	<u>1.1</u>	<u>---</u>	<u>1.1</u>
OMB recommendation.....	417.7	349.5	68.2	458.5	401.9	56.6
Further changes appealed by agencies.....	<u>.3</u>	<u>---</u>	<u>.3</u>	<u>4.3</u>	<u>---</u>	<u>4.3</u>
Agency recommendations.....	418.0	349.5	68.5	462.8	401.9	60.9

* Less than \$50 million.

The current budget estimates are based on the economic assumptions presented in the table below. This economic outlook will need further review as we see how long the severe weather persists and as we get a more accurate reading on its likely economic impact.

Table 3.--The Economic Outlook

	Calendar Years	
	1977	1978
Gross National Product (\$ billions).....	1,884	2,105
Real growth (% change).....	5.4	5.4
Inflation (% change in GNP deflator).....	5.6	6.0
Unemployment rate.....	7.1	6.3
Current market interest rate (91-day bills).....	4.6	4.6

Given the difficulties of economic forecasting, it is likely that the actual performance of the economy will differ from that shown above. Any substantial deviations will alter budget estimates significantly. Lower real growth of GNP, for example, would result in lower incomes and higher unemployment, thus reducing receipts and increasing outlays. If real growth were one percentage point lower than shown in our economic assumptions beginning in calendar year 1977, the 1978 deficit would be increased by almost \$10 billion.

Higher inflation would increase outlays but would increase receipts by even more. The increase in outlays is largely due to automatic benefit increases in programs, such as social security, that are tied by law to the cost of living. The higher nominal incomes that would accompany higher inflation would increase receipts almost immediately due to our system of withholding income taxes; in contrast, the increase in outlays would occur with a significant lag. A one percentage point increase in the rate of inflation beginning in calendar year 1977 would decrease the 1978 deficit by about \$5 billion.

The outlay estimates are also affected significantly by interest rates, which tend to be volatile and are difficult to predict. Our latest estimates of Federal interest costs--which assume continuation of current market interest rates--are higher than those presented in the Ford budget by \$0.3 billion in 1977 and \$2.2 billion in 1978. Part of these increases is due to the larger deficits that you are recommending for 1977 and 1978, but part is due to a rise in current market interest rates from the time the Ford budget estimates were prepared. If interest rates

continue to rise--as many private forecasters are predicting-- this will further increase interest outlays in 1977 and 1978. If interest costs were to rise by 1/2 percentage point by April of this year, and then maintain that new level, Federal interest outlays would be increased by \$0.3 billion in 1977 and \$1.4 billion in 1978.

Thus, as you review the agency appeals and as you consider the budget recommendations that you wish to transmit to the Congress later this month, you should be aware that the budget totals that result from your decisions will be subject to considerable change due to changes in the economic outlook.

Under the OMB recommendation, the projected increase in full-time permanent employment in the Executive Branch (excluding the Postal Service) from June 30, 1976 to September 30, 1978 is about 55,000, or almost 3%.

The major components of the planned increases are due to:

- Congressional actions last year that resulted in increases of about 15,000 in such areas as grain inspection (2,080); veterans medical programs (2,600); and the provisions of the Tax Reform Act (1,850).
- Increases of about 8,000 that relate to population growth such as processing of increased social security benefit claims (2,300); increased aviation activities and expansion of airway facilities (1,600); and medical services for an increasing number of veterans (1,000).
- Initiatives such as: your fiscal stimulus program in the Departments of Commerce (450) and Labor (400); programs for improving parks and recreation areas (1,500); and the "Quality of Care" program in the Veterans Administration (1,800).

Summary supporting information is attached as follows:

Table 4 - Outlays by agency (outlays are estimates of the amounts of checks issued within the year)

Table 5 - Budget authority by agency (Budget authority is an appropriation or other authority provided to obligate for immediate or future spending.)

Table 6 - Composition of budget outlays

Table 7 - Full-time permanent employment

cc: The Vice President
Mr. Eizenstat

Table 4
OUTLAYS
(In billions of dollars)

	1977			1978		
	Ford Budget (1)	OMB Rec. (2)	Diff. (3)	Ford Budget (4)	OMB Rec. (5)	Diff. (6)
Defense & Map.....	98.3	98.3	-*	110.1	109.7	-0.4
Agriculture.....	13.7	14.4	0.7	12.8	15.0	2.2
Commerce.....	3.0	3.2	0.2	2.9	5.0	2.0
Corps of Engineers.....	2.4	2.4	*	2.6	2.6	---
HEW.....	147.6	147.8	0.3	159.0	161.6	2.5
HUD.....	7.7	7.7	-*	8.7	8.8	0.1
Interior.....	3.5	3.5	*	3.5	3.6	0.1
Justice.....	2.4	2.4	---	2.4	2.4	---
Labor 1/.....	23.8	24.3	0.5	20.0	25.0	5.1
Transportation.....	12.8	12.8	---	14.6	14.7	0.1
Treasury.....	50.0	54.4	4.4	50.0	54.9	4.9
ERDA.....	5.4	5.4	---	6.5	6.4	-*
EPA.....	5.3	5.3	---	6.0	6.0	*
NASA.....	3.7	3.7	*	3.9	3.9	*
VA.....	18.4	18.4	---	18.3	18.7	0.4
For. Econ. Assistance.....	3.3	3.4	0.1	3.5	3.8	0.3
CSC.....	9.8	9.8	---	11.3	11.3	*
All other agencies.....	15.5	15.3	-0.2	17.7	19.2	1.5
Civ. pay raises.....	---	---	---	1.2	1.2	---
Contingencies.....	---	---	---	1.5	1.5	---
Undist. off. receipts.....	-15.4	-15.1	0.3	-16.4	-16.7	-0.3
Total Outlays.....	411.2	417.7	6.4	440.0	458.5	18.5
Receipts 2/.....	354.1	349.5	-4.6	393.0	401.9	8.9
Deficit.....	-57.1	-68.2	-11.0	-47.0	-56.6	-9.6

* Less than \$50 million.

1/ Includes work incentives.

2/ Latest estimate as of January 27, 1977.

February 9, 1977

Table 4 a

OUTLAYS
(In billions of dollars)

	1977				1978			
	Ford Budget	CARTER BUDGET OMB Rec.	Agency Req.	Diff.	Ford Budget	CARTER BUDGET OMB Rec.	Agency Req.	Diff.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Defense & Map.....	98.3	98.3	98.3	-*	110.1	109.7	110.0	0.3
Agriculture.....	13.7	14.4	14.4	---	12.8	15.0	15.0	---
Commerce.....	3.0	3.2	3.2	*	2.9	5.0	5.0	*
Corps of Engineers.....	2.4	2.4	2.4	---	2.6	2.6	2.7	0.1
HEW.....	147.6	147.8	147.8	-*	159.0	161.6	162.0	0.5
HUD.....	7.7	7.7	7.7	0.1	8.7	8.8	9.0	0.2
Interior.....	3.5	3.5	3.5	---	3.5	3.6	3.6	---
Justice.....	2.4	2.4	2.4	---	2.4	2.4	2.5	*
Labor 1/.....	23.8	24.3	24.4	*	20.0	25.0	25.7	0.6
Transportation.....	12.8	12.8	12.9	0.1	14.6	14.7	15.2	0.5
Treasury.....	50.0	54.4	54.5	*	50.0	54.9	54.9	*
ERDA.....	5.4	5.4	5.4	---	6.5	6.4	6.4	---
EPA.....	5.3	5.3	5.4	0.1	6.0	6.0	6.1	0.1
NASA.....	3.7	3.7	3.7	---	3.9	3.9	3.9	---
VA.....	18.4	18.4	18.4	---	18.3	18.7	18.7	---
For.Econ.Assistance.....	3.3	3.4	3.4	---	3.5	3.8	3.9	0.1
CSC.....	9.8	9.8	9.8	---	11.3	11.3	11.3	*
All other agencies.....	15.5	15.3	15.4	0.1	17.7	19.2	21.0	1.8
Civ. pay raises.....	---	---	---	---	1.2	1.2	1.2	---
Contingencies.....	---	---	---	---	1.5	1.5	1.5	---
Undist. off. receipts.....	-15.4	-15.1	-15.1	---	-16.4	-16.7	-16.7	---
Total Outlays.....	411.2	417.7	418.0	0.3	440.0	458.5	462.8	4.3
Receipts 2/.....	354.1	349.5	349.5	---	393.0	401.9	401.9	---
Deficit.....	-57.1	-68.2	-68.5	-0.3	-47.0	-56.6	-60.9	-4.3

* Less than \$50 million.

1/ Includes work incentives.

2/ Latest estimate as of January 27, 1977.

Table 5

February 9, 1977

BUDGET AUTHORITY
(In billions of dollars)

	1977				1978			
	Ford Budget (1)	OMB Rec. (2)	Agency Req. (3)	Diff. (4)	Ford Budget (5)	OMB Rec. (6)	Agency Req. (7)	Diff. (8)
Defense & Map.....	106.6	106.5	106.3	-0.2	120.5	117.6	118.5	0.9
Agriculture.....	13.2	13.9	13.9	---	12.4	14.8	14.8	---
Commerce.....	4.0	6.0	6.0	*	1.9	4.1	4.3	0.2
Corps of Engineers.....	2.5	2.5	2.5	---	2.6	2.6	2.8	0.2
HEW.....	146.1	146.4	146.2	-0.2	160.8	161.6	161.9	0.3
HUD.....	20.5	29.7	40.6	11.0	29.7	33.1	45.7	12.6
Interior.....	4.2	3.4	3.4	---	3.6	3.8	3.8	---
Justice.....	2.3	2.3	2.3	*	2.3	2.3	2.4	*
Labor 1/.....	24.8	24.6	25.5	0.9	21.0	27.1	26.4	-0.6
Transportation.....	9.1	9.1	9.4	0.3	13.0	13.1	13.4	0.3
Treasury.....	49.6	54.0	54.0	*	51.0	55.9	55.9	*
ERDA.....	6.4	6.4	6.4	---	7.8	7.8	7.8	---
EPA.....	1.9	1.9	6.2	4.3	5.3	5.3	5.6	0.3
NASA.....	3.7	3.7	3.7	---	4.0	4.0	4.0	---
VA.....	19.0	19.0	19.0	---	18.2	18.6	18.6	---
For. Econ. Assistance.....	4.0	4.0	4.0	---	4.7	5.7	5.9	0.1
CSC.....	17.0	17.0	17.0	---	17.1	17.1	17.1	*
All other agencies.....	16.3	16.1	16.2	0.1	17.9	18.9	21.7	2.8
Civ. pay raises.....	---	---	---	---	1.2	1.2	1.2	---
Contingencies.....	---	---	---	---	1.8	1.8	1.8	---
Undist. off. receipts.....	-15.4	-15.1	-15.1	---	-16.4	-16.7	-16.7	---
Total Budget Authority.....	435.9	451.5	467.7	16.2	480.4	499.7	516.7	17.1

* Less than \$50 million.

1/ Includes work incentives.

Table 6
COMPOSITION OF BUDGET OUTLAYS FOR 1977 AND 1978 AT
VARIOUS STAGES OF ESTIMATES
(fiscal years; in billions of dollars)

	1977		1978		Sum of Agency recom- mendations <u>2/</u>
	Ford budget	Current estimate	Ford budget	OMB recommended level <u>1/</u>	
NATIONAL DEFENSE.....	100.1 =====	100.1 =====	112.3 =====	111.9 =====	111.8 =====
NONDEFENSE:					
Payments for individuals..	183.7	187.3	193.6	198.4	199.3
Grants-in-aid not included in payments for indivi- duals.....	46.9	48.9	46.1	56.7	57.8
Net interest.....	29.8	30.1	31.1	33.2	33.2
Other nondefense.....	50.9	51.3	57.0	58.3	60.7
Total nondefense.....	311.2 =====	317.6 =====	327.7 =====	346.6 =====	351.0 =====
TOTAL BUDGET OUTLAYS.....	411.2 =====	417.7 =====	440.0 =====	458.5 =====	462.8 =====
Addendum: Total grants- in-aid.....	70.4	72.4	71.6	83.6	85.0

The 1977 and 1978 "Ford budget" columns are based on data published in the 1978 Budget issued on January 17, 1977. The remaining data are based on agency submissions and OMB worksheets; they tie to the detail and totals used in the memo from the Assistant Director for Budget Review to the Director dated February 7, 1977.

1/ Composed of (a) reestimates based on the new Administration's guidance, (b) the estimated effect of President Carter's stimulus package, and (c) any further policy changes appropriate under OMB guidance as of 2/9/77.

2/ Reflects agency proposals for changes beyond those incorporated in the OMB recommendations.

* \$50 million or less.

Table 7

2/10/77

FULL-TIME PERMANENT EMPLOYMENT
(Executive Branch, less Postal Service)

Agency	June 30, 1976	September 30, 1977		September 30, 1978	
	actual	OMB Recomm.	Agency Recomm. ^{1/}	OMB Recomm.	Agency Recomm. ^{1/}
Agriculture	80,413	83,475	83,475	84,153	83,475 ^{2/}
Commerce	28,823	29,851	29,898	29,817	29,922
Defense-military func.	922,386	928,000	928,000	921,200	921,200
Defense-civil func. ...	28,648	28,990	28,990	28,912	28,912
Health, Education, and Welfare	136,462	142,325	142,475	143,000	143,150
Housing and Urban Development	14,942	15,680	15,570	16,907	16,830
Interior	59,130	62,111	62,111	62,585	62,585 ^{2/}
Justice	51,201	52,406	52,413	53,767	53,933
Labor	14,471	16,487	16,965	16,619	17,247
State	22,634	22,920	22,920	23,041	23,041
Transportation	71,593	72,774	72,774	73,991	73,991
Treasury	107,877	111,720	111,998	111,964	112,242
Energy Research and Development Admin. ..	8,283	8,692	8,692	9,077	9,077
Environmental Protec- tion Agency	9,481	9,980	10,700	9,998	10,700
General Services Admin.	35,679	36,050	36,050	36,249	36,249
National Aeronautics and Space Admin.	24,039	23,816	23,816	23,737	23,737
Veterans Administration	192,453	201,675	201,675	205,529	205,529
Other:		19000			
Agency for Inter- national Develop. ..	5,751	6,150	6,150	6,150	6,150
Civil Service Comm. .	6,740	7,031	7,031	7,055	7,110
Federal Energy Admin.	3,349	4,042	4,042	3,961	3,961
Nuclear Regulatory Commission	2,289	2,529	2,529	2,695	2,695
Panama Canal	12,978	13,489	13,489	13,489	13,489
Small Business Admin.	4,136	4,434	4,434	4,434	4,434
Tennessee Valley Auth.	15,100	17,365	17,365	17,892	17,892
U.S. Information Agency	8,559	8,745	8,745	8,665	8,665
Miscellaneous	39,432	41,700	41,700	41,950	41,950
Subtotal	1,906,849	1,952,437	1,954,007	1,956,837	1,958,166
Contingencies	---	2,000	2,000	5,000	5,000
Total, Executive Branch	1,906,849	1,954,437	1,956,007	1,961,837	1,963,166

MEMORANDUM:

January Budget (1,906,849) (1,953,300) (1,959,800)

^{1/} A number of these entries are preliminary estimates.

^{2/} Excludes an estimated 3,000-5,000 positions necessary in support of Rural Youth Services Corps.

NOTE:

	1977	1978
At start of year	1,906,849	1,953,300
Added by Ford budget	46,451	6,500
Ford budget at end of year ..	1,953,300	1,959,800
Added by new OMB recomm.	1,137	2,037
OMB recomm. at end of year ..	1,954,437	1,961,837

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*Need a
freeze*

Army Corps of Engineers and Interior Bureau of Reclamation

Issue: Should the FY 1978 request for funds be withdrawn
for controversial water resource construction projects?

Discussion: We have begun a review of all water resources development projects now under way to determine recommended disposition of all those that are (1) environmentally controversial (2) economically marginal or (3) present potential safety problems. Environmentalists urge that you amend the FY 1978 budget to eliminate appropriation requests for about 30 projects pending completion of that review. Under this concept you would submit later upward budget amendments for any that you wish to reinstate.

A list of projects along with the pertinent information on each is being prepared for discussion of this issue.

Environmental Protection Agency

Issue: What should be the full-time permanent position ceiling for the Environmental Protection Agency?

Agency Position: The Administrator-designate has not taken a position on the Agency's personnel ceiling. However, the Acting Administrator has appealed for an increase of 1,992 additional positions over the January budget ceiling of 9,698.

The Acting Administrator claims that the additional positions are critically needed in order to permit the Agency to meet its regulatory responsibilities. Furthermore, he states:

- The Agency has received only 347 positions in the last four years although it has moved to implement the clean water, safe drinking water, ocean dumping, noise and pesticide Acts;
- Implementation of the recently enacted solid waste and toxic substances legislation requires still additional personnel and makes further reprogramming efforts extremely difficult;
- Cuts made below current levels in the water quality enforcement and research and development areas could result in firings as well as the closure of some facilities;
- The program and fiscal integrity of the huge construction grants program requires an immediate input of 300 positions.

OMB Views: On appeal, the OMB recommendation is to grant an additional 110 positions for the construction grants and solid waste programs. Programmatically, further additional positions are not viewed as critical to the effective operation of the Agency because:

- EPA is basically a regulatory Agency. Further increases in personnel will result in additional Federal regulatory actions without, necessarily, any reduction in current lower priority areas;
- The Agency has received over 3,700 new positions since it was formed to meet increasing program requirements;
- The January budget provided 280 additional positions for the new toxic substances legislation (100 new positions to be provided immediately) and 30 positions for the new solid waste legislation to build on its current personnel level of 185;
- The Agency's annual attrition rate of 15% (1,400 positions) per year, in combination with the reprogramming of skills, are tools available to the Agency to meet the programmatic changes required by the January budget.

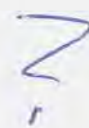
Environmental Protection Agency

Issue: Waste Treatment Construction Grants

Should the \$400million FY1977 supplemental request for the construction of sewage treatment facilities be increased?

Agency position: The Administrator-designate has taken no position on this issue. The Acting Administrator requests a FY1977 supplemental of \$4.5 billion allocated among all the States.

OMB views: Although \$6 billion is currently available for obligation, approximately 11 States will run out of funds, requiring an estimated additional \$400 million. OMB recommends a \$400 million targeted to only these States because:

- The \$4.5 billion FY1977 supplemental will increase outlays by \$20 million, \$30 million and \$170 million in fiscal years 1979, 1980, and 1981 respectively, over the \$400 million proposal.
 - The \$4.5 billion proposal will result in the funding of types of projects that would be ineligible under proposed amendments aimed at funding only high priority projects while reducing the long term cost of the program from \$330 billion to \$45 billion.
 - A large FY1977 funding level will provide sufficient funds for all States through most of FY1978, reducing pressure on Congress to take early action on reform legislation to focus funds on high priority projects and reduce the long term cost of the program.
- 

Environmental Protection Agency

Issue: What should be the funding level of Federal planning and support grants to State and local pollution control agencies.

Agency position: The Administrator - designate has not taken a position on this issue. The Acting Administrator has requested an additional \$124 million over the current allowance of \$138 million. The Agency believes that: 1) increased funds are needed by the States to perform their role in meeting environmental objectives envisioned by the various environmental statutes and 2) that the increase in funds would reduce adverse Congressional reaction to consolidating these grants administratively.

OMB views: The current allowance presents a \$13 million (10%) increase over the 1977 enacted levels. Every State and every State pollution control agency will receive a significant increase in 1978. Additional funds are not merited because a significant part of the State planning process for pollution control will be completed in early 1978 and the States will have free resources to begin undertaking new tasks. The current level of funding meets the Agency's highest priority needs. *agree*

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Environmental Protection Agency

Issue: Should the Administration postpone the previous Administration's attempt to consolidate five categorical grant programs administratively and instead pursue consolidation through the legislative process?

Agency Position: The Administrator-designate has not taken a position on this issue. The Acting Administrator agrees with the concept and merits of consolidation but believes that we should get Congressional approval in lieu of consolidating the program administratively. The Agency believes that adverse Congressional reaction could be so severe that Congress may statutorily preclude grant consolidation.

OMB Views: Though this would be the first attempt to consolidate grants administratively, there are no statutory provisions in the Acts which preclude consolidation. In fact consolidation is in the spirit of environmental legislation which recognizes that States have the predominant role in determining how funds should be distributed among State agencies. *ok*

It may be the only way to achieve the needed program reform since Congress has repeatedly refused or ignored legislative consolidation.

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Environmental Protection Agency

Issue: Should a \$137 million supplemental for FY 1977 be proposed for water quality planning?

Agency position: The Administrator - designate has not taken a position on this issue. The Acting Administrator believes that the \$15 million included in the FY 1977 Budget is insufficient. He believes that this is the most important program for controlling pollution from agricultural land and similar sources of pollution. Consequently he has requested a \$137 million increase for FY 1977.

OMB views: The \$137M supplemental request is identical to the amount currently being held back from obligation by the courts. The District Court of D.C. has ruled that \$137M in prior year unobligated balances for this program must be made available but the Justice Department has appealed this ruling to the U.S. Court of Appeals and a stay on the lower courts order exists until the case is heard.

Programmatically, additional funds are not merited: 1) because for major metropolitan areas, which represent the major portion of the pollution problem, over \$200M has already been granted and these plans are to be completed and submitted to EPA for approval in 1978; and 2) because fulfillment of the statewide planning concept will not yield large water quality improvements since rural areas are not as large a part of the pollution problem.

In addition, it should be emphasized that a request for supplemental funds is premature since the lower court ruling may be upheld. If this occurs and a supplemental is also approved, \$274M in additional grant funds would be made available in 1977.

Most State and Regional interest groups, including the National Association of Regional Councils (NARC) and the National Association of Counties (NACO) have strongly supported EPA's request for additional funds for this program.

7
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Environmental Protection Agency

Issue: Waste Treatment Facility Loan Guarantee Program

Should the Federal Government initiate a program of Federal loans guaranteed by the Environmental Protection Agency to finance the 25% local share of waste treatment facilities currently receiving 75% Federal grant funds? If so, what requirements should be placed on the program?

Agency Position: The Administrator-designate has taken no position on this issue. The Acting Administrator requests a FY 1977 appropriation of \$50 million to be used for payments to Treasury in cases where a municipality defaults on repayment of an EPA-guaranteed loan.

OMB Views: OMB recommends that no funds or positions be budgeted for the loan guarantee program, because:

- There is no widespread, demonstrated need for the program. The authorizing legislation was passed at the 11th hour of the last Congress without hearings or debate.
- OMB is initiating a review of the role of the Federal Financing Bank. This review may conclude that programs of this type should not be an appropriate function of the Federal Financing Bank.

If the program is to be funded, OMB recommends the following requirements be adopted:

- Adoption of eligibility criteria proposed by Treasury which are more stringent than those assumed by EPA. Under law, the final determination of eligibility criteria will be made by the Secretary of the Treasury. ✓
- Establishment of a contingency reserve through a surcharge on all loans to be used to offset defaults. The contingency reserve will make the program self-financing over the long-term, but would still require a start-up appropriation. ✓
- Limiting the coverage of the loan program to non-Federal share of costs which are also grant eligible, excluding non-grant-eligible items. ✓
- Limiting coverage to projects for which local financing has not yet been arranged, excluding the refinancing of existing projects. ✓
ok

FEDERAL ENERGY ADMINISTRATION

Issue: Expansion and acceleration of the petroleum storage program. The agency position would add about \$2.6 billion in BA and \$1.8 million in outlays in 1978 for a total of \$4,252.1 million in BA and \$3,213.5 million in outlays. Increases over January planning levels for subsequent years would be substantial.

Agency position: The Federal Energy Administration proposes to:

1. Expand the 500 million barrels to 550 million barrels and storage site capacity to 750 million barrels anticipating subsequent expansion beyond the 550 million barrel level.
2. Accelerate development in order to store 250 million barrels by December 1978 and 550 by December 1980. Previous planned rates called for 150 million barrels by December 1978 and 500 million barrels by December 1982.
3. Budget for oil at the work market price (about \$14.40 currently) instead of the national composite price (about \$11.40 currently).

150
11.4
57
114
171

OMB views: OMB agrees acceleration of the 500 million barrel program is desirable if it is feasible and cost-prudent. OMB recommends an accelerated program but at a more realistic pace, lower cost and less risk, involving no expansion beyond the 500 million barrel level. 1/ This approach (using the agency's schedule) would result in storage of 200 million barrels by 1978 and 500 million barrels by 1980 or in early 1981. The FY 1978 budget would be increased about \$700 million instead of \$2.6 billion assuming use of the composite price.

OMB recommends against the agency proposal because:

- the storage target of 250 million barrels by December 1978 does not appear feasible. The agency is still in the planning stage. A substantial amount of complex work must be completed before storage sites can be filled;

agree -
Can modify
in coming
months if
ready -

1/ Time was not available for OMB consultation with the agency on the recommended approach. This will be necessary to work out a satisfactory proposal.

- expansion of storage beyond 500 million barrels has not been justified and any such expansion should be evaluated in developing comprehensive national energy policy in April. Expansion to 750 million barrels from the 500 million barrel level adds over \$4 billion to the cost of the system;
- budgeting for oil at this point should not change
- continue using the national composite but reevaluate this issue in formulating the comprehensive energy policy by April.

agree

*How about Naval
Reserves - use or swap?*

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FEDERAL ENERGY ADMINISTRATION

Issue: Whether to increase the intensity of audits for certain sectors of the petroleum industry to assure compliance with price controls. The agency would increase 1977 and 1978 staffing by 316 positions over the approved levels of 1613 and 1652 positions, respectively. This would increase BA by \$2.7 million in 1977 and \$9.4 million in 1978 for a total of \$40.2 million and \$48.8 million.

Agency position: Current audit coverage is not acceptable. A strategy should be adopted so that those firms that produce 80% of the volume are audited every other year and all others are audited every five years. This would result in an increase of roughly \$70 million of violations detected.

OMB views: OMB recommends against an increase in staffing. The FEA proposal is arbitrary and does not take into account the relative importance of the various sectors of the petroleum industry, e.g., producers, refiners, wholesalers, retailers. The audit strategy funded in the January budget places more emphasis on larger firms in the producer, and refiner sectors. FEA's proposal would retain coverages in these areas but almost double audit frequency for those sectors of the industry which handle lesser volumes and are particularly hard hit by the problem that FEA regulations are ambiguous and frequently made retroactive.

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HEALTH, EDUCATION, AND WELFARE

1. Child Health Assessment Program

Issue: HEW proposes a new initiative to improve the delivery of health services to poor children. The program would operate through medicaid and cost \$250 million in 1978.

Agency position: The present program for periodic health screening of poor children reaches only 35% of eligible children, and only 60% to 80% of those children receive treatment. This program will help pave the way for national health insurance by improving delivery system.

OMB views: Opposes initiation. (1) The problem with the present program is enforcement. (2) Before endorsing another new proposal that sets a particular course of action, a more thorough plan should be examined in the context of an in-depth review of the existing program.

2. Education of the Disadvantaged, Elementary and Secondary Education

Issue: Add another \$150 million to program above \$200 million already added to January budget.

Agency position: Funds needed to keep pace with the growth in education expenditures generally.

OMB views: Such a proposal leads to large future spending for this program with no relationship of achievement to effective use of the funds.

3. Medicare Reimbursement

Issue: HEW proposes to (1) freeze the premium rate paid by each enrollee in the supplementary medical insurance program, (the January budget proposed an increase from \$7.20 to \$7.70); and (2) to have a slower phase-in of a plan to eliminate the differentials between urban and rural physicians. Cost: \$382 million.

Agency position: Freezing the premium (cost: \$182 million) will alleviate a financial burden on the elderly; the physician reimbursement proposal (cost: \$200 million) would help curb

3. Medicare Reimbursement (continued)

the inflationary spiral on physician fees and help promote primary care services.

OMB views: Accept premium freeze; reject reimbursement proposal, since it will not cure inefficient geographic and specialty distribution of physicians and could cost more for the same level of service. Suggest an evaluation leading to an integrated rural health strategy as part of 1979 budget. *ok*

4. Basic Opportunity Grants (Higher Education for Needy Students)

Issue: HEW proposes adding \$208 million so as to permit the maximum award per student at the authorized level of \$1,600 per year rather than the \$1,400 proposed by OMB.

OMB views: Funding levels have already been increased \$264 million above January budget, thereby extending participation to 500,000 middle-income students. Pending development of a higher education strategy, this increase shows evidence of commitment.

5. National Defense Student Loan Program

Issue: HEW proposes adding \$286 million of capital contributions to the direct student loan program.

Agency position: HEW feels that proposed legislation eliminating funds for this program will result in confrontation with the Congress.

OMB views: Opposes increase. This program duplicates the basic grant program, for which increased funding is recommended, as well as the guaranteed student loan program, which is estimated to subsidize 900,000 new student loans in 1978.

*Need to remove
bankruptcy avoidance
of repayment -*

6. Impact Aid for Education

Issue: HEW proposes to drop proposal to exclude impact payments for children in public housing ("C" children) in appropriation request. Cost: \$68 million.

6. Impact Aid for Education (continued)

Agency position: Funding is desirable since target is disadvantaged in urban areas. Any elimination of these payments should be accomplished by legislation as part of overall plan to serve the disadvantaged.

OMB views: Funds provided will not necessarily go for disadvantaged children. If aid to disadvantaged is purpose, then specific funds for that purpose should be added to elementary and secondary education.

HOUSING AND URBAN DEVELOPMENT

Issue: Should the Secretary have more discretion over the way Community Development Block Grants are distributed, or should the use of a needs-based formula be emphasized?

Agency position: Secretary Harris believes she must have control over the distribution of substantial sums in order to take advantage of special development opportunities.

OMB views: The proposals would undermine the needs-based nature of the current distribution mechanism, and revive some of the discredited features of the previous system for distributing funds -- the emphasis on grantsmanship, congressional intervention in the awards process, and substitution of Federal priorities for local priorities. Moreover, the few specifics provided on the intended use of these funds indicate no differences from uses under the current program. OMB believes a decision on reorienting the program in this way should be deferred at this time.

Subsequently, OMB agreed to give Secretary Harris the discretion desired and has asked for an evaluation of the use of these funds at an appropriate time.

C

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Housing and Urban Development

Issue: Should budget authority for the subsidized housing programs be increased by \$22 billion to provide (1) higher subsidized rent levels, (2) extended contract terms, and (3) special set-asides for State housing agencies? (This would be in addition to the \$12.1 billion increase jointly recommended by HUD and OMB to raise the activity level in 1977 and increase support for public housing.) The increase would raise outlays by \$40 million in 1977 and \$60 million in 1978.

Agency position: Secretary Harris believes that higher subsidized rent levels and longer subsidy terms are needed to assure achievement of her goal of approving 400,000 units of housing for 1977 and 1978. She also believes State agencies can provide housing more quickly than private developers.

OMB views: No evidence has been presented to indicate that subsidized rent levels are too low. In fact, these rent levels exceed the median rent paid by tenants in 18 of the 19 metropolitan areas for which data are available. Contrary to what the Secretary claims, lenders have shown a willingness to support subsidized housing without a lengthening of contract terms; shorter terms give the lender an incentive to do careful underwriting, assuring higher quality projects. Finally, State agencies are much less efficient than private developers. Despite the fact that State agencies are exempt from Federal and State taxation, borrow in the tax-exempt market, and require no profit, their projects cost 18 percent more per year than privately developed projects. *agree*

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Justice

Issue: Should funds for juvenile justice and delinquency prevention programs be increased?

Agency position: The Department of Justice requests \$45 million for the Law Enforcement Assistance Administration for juvenile justice and delinquency prevention programs; additional resources are needed to carry out the provisions of the Juvenile Justice and Delinquency Act of 1974.

OMB views: Additional funds for these programs are recommended. Among LEAA's many activities, programs to combat juvenile delinquency offer the highest potential for affecting crime. However, the \$45 million should not be added to the current LEAA budget, but reprogrammed from other activities of lesser or unknown impact. This will force LEAA to improve its management and thereby target resources on projects that demonstrate the most effectiveness in dealing with the crime problem.

agree

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Maritime Administration

Issue: Should additional funds for ship operating and construction subsidies be added to the 1978 Budget? The Ford budget provides no new funding for construction subsidies in 1978, and limits additional operating subsidy funding by allowing only short-term renewals of operating subsidy contracts through June 30, 1978, pending completion of an OMB-led study of these programs.

Agency position: Agency position would add \$135 million in budget authority and \$8 million in outlays in 1978 for construction subsidies on the grounds that rising demand for new construction will exhaust carry-over funds now available and that the January budget request of no new budget authority for this program does not demonstrate clear support for the existing statutory programs.

For operating subsidies, agency position would add \$16.5 million in budget authority and 3 million in outlays. Agency also argues for restoration of flexibility to enter into 20 year operating subsidy contracts. The overall agency position here is that the limitation on the operating subsidy program in the January budget will inhibit investor confidence in the maritime industry and will be viewed as a step toward abandonment of the program.

OMB views: OMB believes there is a need to conduct a complete review of the basis for continuing these subsidy programs to the maritime industry. In the past, the basic justification for these programs has shifted among national security, employment, and other objectives. Pending completion of such a study, further operating subsidy contracts should be restricted to a short-term duration only. A cutoff date of June 30, 1978, is presently assumed to allow adequate time for completion of the study and implementation of recommendations. Allowing 20 year renewals would foreclose options in this area.

OMB believes that the more than \$300 million in unused budget authority currently available will be sufficient to fund the construction subsidy program well into FY 1978, perhaps even through the end of that fiscal year. If demand increases, supplemental appropriations can be requested at a later date. Until then, it is recommended that no new funding be authorized, so as to preserve options for program change that may be identified in this study.

Department of Transportation
Redeemable Preference Shares

Issue: Should the present policy of using redeemable preference shares to facilitate desirable rail mergers and consolidations be replaced by a policy which emphasizes the creation of jobs, improvement in rail facilities, and the payback of the Federal investment? The agency position would add \$125 million in BA and \$80 million in outlays in 1977 and \$175 million in BA and \$180 million in outlays in 1978.

Agency position: Redeemable preference shares represent a very flexible form of interim assistance to freight railroads. They are a form of non-voting preferred stock which, essentially, allows a governmental equity investment in a private corporation through long term low interest loans. Preference shares should be used to show Federal commitment to the rail industry while studies of rail problems are underway for the next year. Although there is a need to restructure the industry, it is an inappropriate policy for interim assistance. Emphasizing mergers may not get to the basic problems of the industry, take too long to get any assistance to the industry, and may not be influenced by offers of financial aid. Emphasis should be placed on jobs, help to the industry, and payback to the government. This proposal creates some 2,600 and 5,100 workyears of employment in 1977 and 1978 respectively.

OMB views: The Department's proposal is not an adequate replacement for the present policy. Any use of preference shares would create jobs and improve rail facilities. The key is to determine where the jobs are created and which facilities are improved. The Department has not had time to formulate its priorities to do this. A total of \$800 million in loan guarantee authority is already in the budget through 1978. These guarantees can immediately accomplish the Departments objectives of creating jobs and helping the industry. Preference shares should be reserved for those high priority projects which facilitate change in the industry. OMB recommends that any budget amendment for this account be deferred until the Department can develop its priorities.

Subsequently, OMB agreed with the agency proposition for 1978 but rejected added funds for 1977. The agency agrees with this position.

ok

Department of Transportation

Issue: Should additional Federal funding be provided in 1977 and 1978 for roads not on the federal-aid system?

Agency position: Department of Transportation believes that a \$138 million in budget authority is needed in both 1977 and 1978 for safety-oriented off-system highway projects, whereas only \$25 million for 1978 is currently in the budget. The Department's position is based on the following:

- . highway safety is a national goal with no distinction between on-system and off-system roads.
- . off-system safety projects tend to be pushed aside by States in favor of new construction.
- . assistance is especially needed for projects in rural areas.

OMB views: OMB believes that the \$25 million already proposed for 1978 is sufficient because:

- . Proliferation of categorical grant programs should be resisted in preference for a broader block grant legislative initiative.
- . The major subprogram is not limited to safety projects. Only a fraction would be obligated for safety.
- . Only 20% of miles driven is on off-system roads--mostly intrastate. There is minimal Federal interest.
- . A 1977 supplemental is especially unwarranted. There are \$209 million in funds from expired off-system programs still available for obligation in 1977.
- . Annual funding at a \$138 million level will meet only 2% of designated off-system construction needs.

Subsequently, OMB agreed to increase funding by \$75 million specifically for grade-crossings.

Department of Transportation

Issue: Should the Administration increase the 1978 Federal-aid Highway program level (obligations) above the \$6.5 billion currently proposed?

Agency position: Department of Transportation believes that the 1978 program level should be raised by \$0.9 billion and outlays by \$0.2 billion. The 1978-1982 outlay effects would be more substantial. The Department's position is based on the following arguments:

- . Congress will not accept levels lower than those proposed by the Department. (Congress enacted a \$7.2B limitation in 1976 and 1977 and will see \$6.5B as a reduction, though obligations were only \$4.6B in 1976 and are estimated by OMB to be about \$6.5B in 1977.)
- . Constant dollar highway construction has declined in recent years while highway needs have increased.
- . There are safety and economic benefits from highway construction.
- . It will create 54,000 direct employee-years of work (OMB's estimate is no more than 43,000 employee-years).

OMB views: OMB opposes the proposed increase because:

- . Funding increases should await an Administration ground transportation legislative initiative.
- . Total national highway expenditures are large and growing--from \$17 billion in 1967 to \$31 billion in 1977--without substantial Federal-aid increases.
- . It appears that States will only be able to obligate about \$6.5 billion in Federal-aid highway funds in 1977, whereas the allowable program level is more than \$1 billion higher. There is no reason to believe that States will be able to use substantially more funds in 1978.
- . There are not studies which indicate that highway system service levels have deteriorated.

Subsequently, OMB agreed to increase the limitation to \$7.2 billion but to include some \$.4 billion of programs not previously covered within the limitation.

Department of Transportation

Issue: The agency position would add \$200 million in obligations for discretionary capital grants for mass transit. OMB proposes \$50 million.

Agency position: Department of Transportation believes the January budget does not provide sufficient grant funds for transit bus and bus-related investments or for rail (subway and commuter) modernization projects. The department would also like to be relieved of the moratorium on the initiation of major rapid transit projects contained in the Ford budget. The department would also like to depart from the existing practice which does not fund major projects until funds have been provided to cover the full scope of such projects.

OMB views: OMB believes that only a \$50 million increase associated with discretionary grants for transit buses is warranted. Other bus-related grants can be fully accommodated within the transit funding base or by highway grants which may also be used for transit purposes. No further increases are recommended for subway and rail-related grants: \$220 million from 1977 to 1978 are included in the January budget.

OMB recommends that the full funding concept and no new starts policy should not be changed until DOT and OMB reach an understanding on how the mass transit program can and will be controlled. Full funding is a government-wide practice. The temporary no-new-starts policy reflects the fact that several major projects are under construction while the actual benefits of the first major new systems (BART in San Francisco, METRO in Washington) which have begun operations are not developing as predicted. A thorough assessment is planned by DOT this year of where this Administration wants to go with surface transportation programs and legislation.

Department of Transportation

Issue: Additional \$195M Interstate transfers for construction of METRO rapid transit in Washington, D.C., suburbs. (\$350M already provided in the January budget.) The request by the Washington Metropolitan Area Transit Authority--a non-federal agency--would add \$35 million in 1978 outlays.

Agency position: METRO wants a \$744M construction program in 1978, \$545M of which would be financed by canceling an equal amount of Interstate highway projects in this metropolitan area. The January budget provides \$350M of Interstate transfers toward a \$500M program. About \$3.6B and 61 miles of METRO have been funded through 1977. The proposed \$744M program would bring these cumulative totals to \$4.3B and 84 miles. METRO contends that this level of spending in 1978 is necessary to maintain its construction schedule and to avoid further cost escalation. About \$200M of additional funding would be needed beyond 1978 in order to make the 84 miles actually operational.

DOT view: (Unofficial). Most of the mileage METRO would like to begin to build in 1978 is under re-evaluation at the request of DOT. The January budget of \$350M is a reasonable compromise between what METRO wants and the fact that major questions have been raised about the particular routes proposed for funding. Conversely, DOT does not want to upset the funding arrangements currently under development at the local level which would assure that 61 miles of METRO will clearly be built and put into operation.

OMB view: The \$195M increase should be denied. The DOT has conditioned release of even the \$350M upon satisfactory progress toward re-evaluation of most of the unbuilt portions of METRO. METRO is proposing to fund some of the least cost-effective parts of its system with the additional \$195M. We should not pre-empt the results of the on-going independent re-evaluation which is utilizing the most advanced and proven transit planning and evaluation techniques in the country. METRO has not been seriously re-evaluated since the mid-1960's when the 1990 population forecasts for the Washington area were almost one million higher than the most recent forecasts.

Department of State

There are a few issues involving the foreign aid program that will be brought to the attention of the President separately.

ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION

An issue will also be provided separately on a question involving anti-proliferation matters. Specifically, the issue will concern the Clinch River reactor.